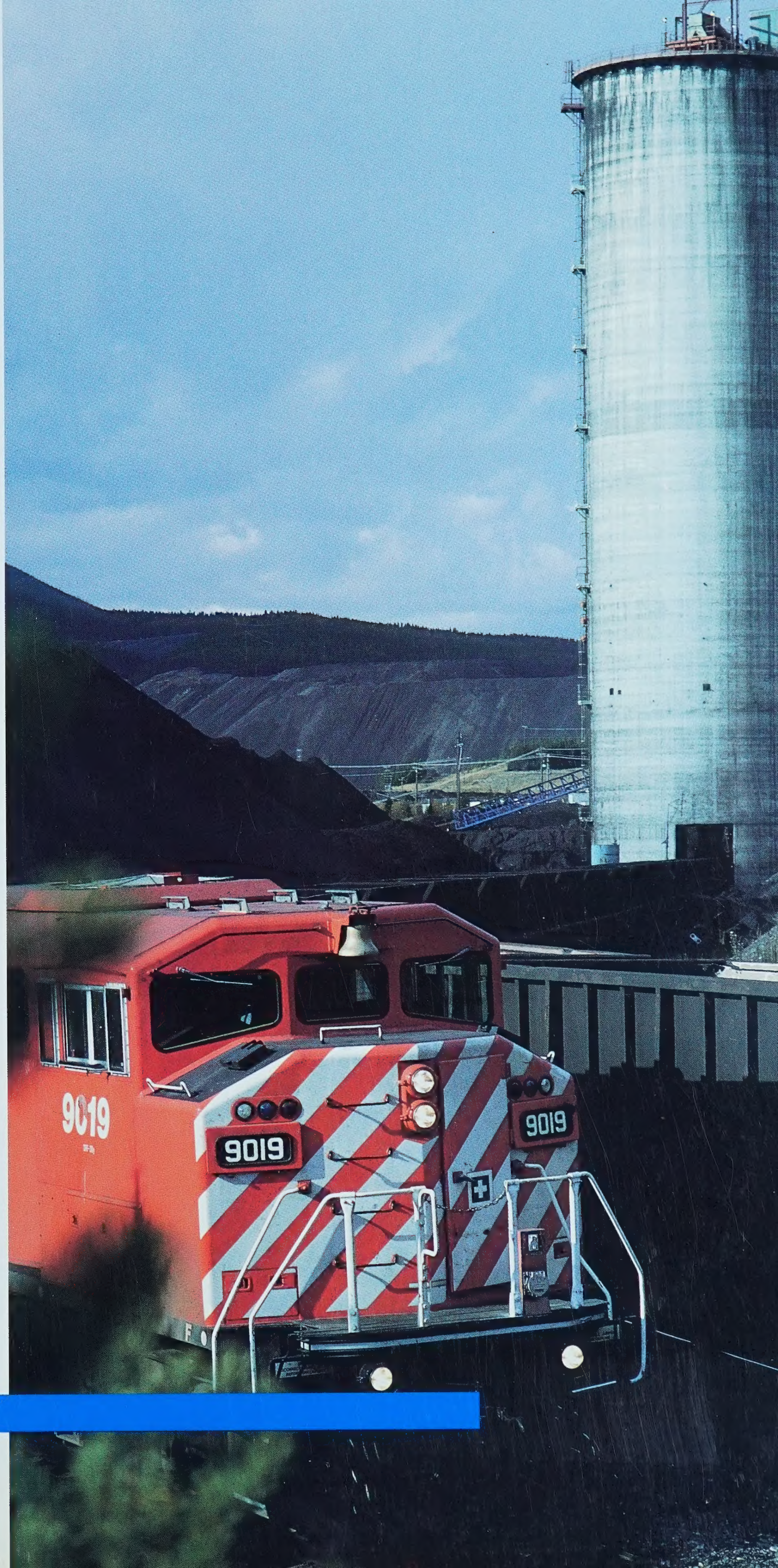
Canadian Pacific Limited



1991 Annual Report

The Company

Canadian Pacific's roots go back more than 100 years with the building of a transcontinental railway. Today Canadian Pacific is a diversified management company which, directly and through subsidiaries and associated companies, operates in several areas of business in Canada and internationally.

The businesses are involved in: railway, ocean shipping and trucking operations; the exploration, development and production of oil, gas, coal and other minerals; the manufacture and sale of forest products; the development and management of real estate and hotels; the provision of telecommunications services and the manufacture and sale of industrial products; and waste management services.

Cover Photograph

CP Rail System unit train takes on coal at Fording Coal's Fording River Operations in southeastern British Columbia. The load-out silo is positioned directly over the tracks, allowing trains to pass through it without stopping. A 10,000-tonne capacity train can be loaded in under three hours. Fording River Operations produce Canada's widest range of bituminous coals from a single site and export more than six million tonnes of cleaned coal annually to world markets.

Contents

1992 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 6, 1992 at the Hotel Vancouver, Vancouver, British Columbia, at nine-thirty a.m., Vancouver time.

Highlights

	1991	1990	1989
	(dollars in millions, except amounts per share)		
Income Items			
Revenues	$ 10,070.4	$ 10,432.3	$ 10,810.0
Operating income			
Transportation	$ (14.8)	$ 294.3	$ 263.4
Energy	184.5	424.0	297.6
Forest Products	(845.4)	14.9	377.1
Real Estate and Hotels	134.4	264.4	354.6
Telecommunications and Manufacturing	35.8	37.3	84.2
	$ (505.5)	$ 1,034.9	$ 1,376.9
Net income	$ (913.8)	$ 355.3	$ 745.2
Per Ordinary Share			
Net income	$ (2.87)	$ 1.11	$ 2.35
Dividends	$ 0.63	$ 0.92	$ 0.84
Market price at year end (Toronto Stock Exchange)	$ 18	$ 19¾	$ 25¾
Rates of Return			
Average shareholders' equity	(12.6)%	4.5%	9.9%
Average capital employed (operating)	(2.9)%	6.6%	9.4%
Financial Condition			
Capital expenditures	$ 1,690.8	$ 1,953.9	$ 1,640.8
Cash on hand	$ 1,242.7	$ (510.5)	$ 164.2
Total long term debt	$ 7,391.7	$ 4,744.5	$ 4,419.3
Total assets	$ 20,587.1	$ 20,223.5	$ 19,048.3
Debt:equity	49:51	35:65	33:67
Ordinary Share Capital			
Average number of shares outstanding (in millions)	318.5	318.5	317.3
Number of shareholders at year end	60,575	64,866	66,919
Number of Employees			
Average for the year	78,200	72,200	75,600

To the Shareholders

The year 1991 turned out to be one of the most difficult in the 110 year history of Canadian Pacific. It also proved to be equally difficult for most Canadian businesses and the pain was felt by Canadians in every walk of life. A deepening recession, low commodity prices and a stubbornly high Canadian dollar severely impacted virtually every resource and manufacturing company in the country.

The past year also proved to be an awakening for many Canadians. The impact of the rapid globalization of the world economy hit home with a vengeance, and the need for dramatic improvements in our productivity, product quality, skill levels and marketing expertise became evident to all.

Concerted action is required on a wide range of issues. Managements must take the initiative in a renewed emphasis on productivity, plant investment, product quality and employee training. Labour must recognize that productivity growth is the key to job creation and a better standard of living. Governments at all levels must get their fiscal houses in order. High deficits and high taxation levels that sap the strength of Canadian business and citizens must be corrected as quickly as possible. Efficient delivery of government programs and elimination of duplication among levels of government is of paramount importance in meeting the challenges of the 90's.

At Canadian Pacific, we recognize the challenges. In addition to the overriding need for competitiveness, the current decade could well see lower rates of economic growth and weak commodity prices. We therefore elected in 1991 to accelerate our program to narrow our focus and improve productivity and product or service quality to world class levels in all our businesses. This meant some very difficult decisions such as withdrawing from certain product lines and geographic areas, closing facilities, downsizing our workforce and reducing administrative costs. The end result will enable us to concentrate our efforts in areas where we have the best opportunity to compete effectively.

These strategic decisions along with the impact of the current economic conditions resulted in a substantial loss in 1991. Before unusual items, the loss was $16.2 million. Including unusual items, there was a loss of $913.8 million or $2.87 per share.

The unusual items, which are detailed in the Financial Review on page 32, consist of write-downs and special charges incurred in nearly every business unit to shed unproductive assets and establish provisions for the equitable handling of staff reductions. In addition, the charges included a write-down of $290.8 million in the Company's investment in Laidlaw.

In order to conserve our resources to fund the capital and investment programs necessary to meet our strategic goals, we considered it prudent to reduce dividends to our shareholders to the level of 8 cents per quarter. We are committed to restoring the dividend to acceptable levels when conditions improve.

In addition to substantial workforce reductions throughout the Company which included significant cuts in administrative and executive positions, a salary freeze for management in the parent company and in most of the subsidiary companies was instituted effective January 1, 1992.

A full discussion of the Company's financial results and developments can be found in the Review of Operations and Financial Review sections beginning on page 10 of this report.

Strategic Initiatives

The strategy at Canadian Pacific is to ensure that each of our business units has the management, facilities and financial capability to compete effectively in their marketplace. In the case of non-regulated businesses, the ability to compete is largely a function of management effectiveness. In the case of regulated businesses such as CP Rail System and Unitel, government policy plays a critical role in the future success of these entities.

Throughout Canadian Pacific we are committed to producing competitive products and services through innovative product development, marketing skills and the drive to be a low cost producer. The year 1991 will be recorded as a significant year in the achievement of these goals.

In the non-regulated businesses major changes were put into effect in 1991. At CP Forest Products, the decision was made to concentrate their efforts on the product line and mills where the company has demonstrated competitive strength and where significant investment has been made. As a result, most of the paperboard and packaging businesses were put up for sale, the tissue business was sold and newsprint production substantially reduced through the announced 1992 closure of the mill at Trois-Rivières, Quebec and the closing of two old machines at Dalhousie, New Brunswick.

When the program is complete, CP Forest Products will have fully competitive facilities in newsprint, pulp and white paper. It will also lead the North American newsprint industry in recycling capabilities when a new installation at Gatineau, Quebec

is started up in 1992 to join the facility at Thunder Bay, Ontario, put into service in 1991.

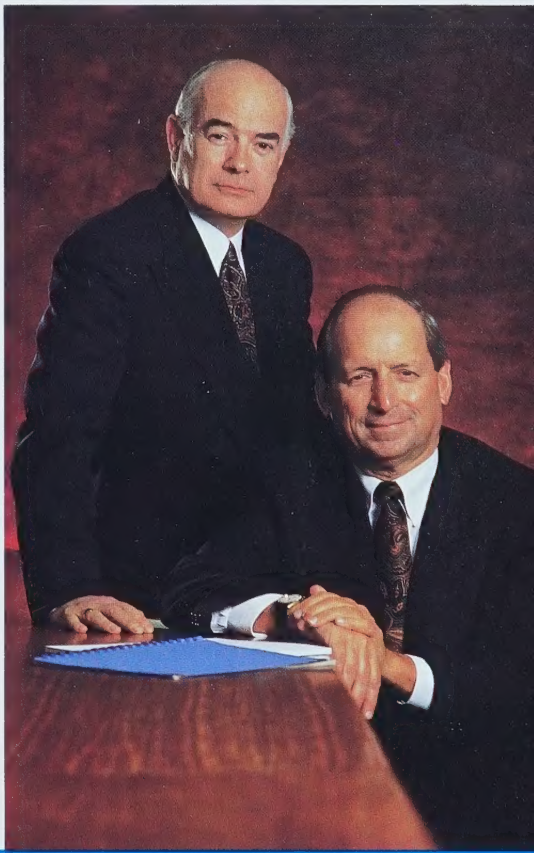
PanCanadian Petroleum continued the drive to strengthen its position as one of Canada's leading hydrocarbon producers. It now is the third largest petroleum company in the country based on equity market value. PanCanadian more than replaced its production during the year through an effective and low cost exploration and development program. The decision was made in 1991 to sell its American properties and its interest in a methanol plant as well as writing down its investment in the OSLO oil sands project in Alberta. In addition to an intensified search for oil and gas in Western Canada, PanCanadian has entered into a joint venture in Western Siberia where the technical skills of the Company's engineers can assist the Russians in enhancing oil production. PanCanadian intends to increase its reserves in Canada and expand internationally in a prudent manner.

Fording Coal continued to enhance its reputation as one of the world's leading coal companies with another excellent performance in 1991. Its strategy to broaden its base away from metallurgical coal resulted in a contract to remove overburden at the Syncrude oil sands plant in Alberta. In addition, Fording and its partner Edmonton Power have been authorized to expand the thermal coal operation at Genesee in Alberta to support a power plant expansion. Fording will continue to look for opportunities to build on its reputation for productivity, quality and innovativeness.

At Marathon Realty, the decision was made to focus further development on strategic land holdings in Montreal, Toronto and Vancouver where the company has a clear competitive advantage. The decision also was made to prune its non-strategic assets. In this respect, a provision was made in 1991 for losses on certain properties that may be sold as opportunities arise. Marathon is completing major developments in Montreal, Toronto and Vancouver and is uniquely positioned to enhance its role as one of Canada's leading real estate developers.

CP Hotels & Resorts' renovation and expansion program that was begun over five years ago has resulted in a chain of unique properties known around the world. From the Empress Hotel and the Banff Springs Hotel in Western Canada to the Chateau Frontenac and Chateau Montebello in the East, a base has been created to enhance Canada's tourism potential as well as the profitability of the hotel company. With the integration of the Doubletree chain in the United States into its system, CP Hotels is poised to emerge as one of North America's leading hospitality companies.

We continue to view Laidlaw as an attractive long term investment. The write-down reflected the outlook for a lower growth rate through acquisitions than has been the case in the past. Laidlaw has an excellent market position in all three of its core businesses – solid waste, hazardous waste and school busing. Its position in the rapidly-growing waste industry and its potential to expand its U.S. and



J. F. Hankinson
President and
Chief Operating Officer

W. W. Stinson
Chairman and
Chief Executive Officer

overseas operations provides a good strategic fit for Canadian Pacific.

In the regulated businesses, Unitel made substantial progress in 1991. Productivity and revenues continued to improve despite the recession. Unitel continues to reap the benefits of the partnership with Rogers Communications. Unitel is uniquely equipped to deliver to Canadians low cost, high-quality telecommunications services that will allow this country to be more competitive with the United States and our other trading partners. The most important regulatory issue in 1992 for Unitel is the application to end the telephone companies' long distance monopolies. With a modern coast-to-coast digital network, a synergistic partnership with the cellular and cable businesses of Rogers Communications and a strong management team, a favorable decision by the regulatory authorities will permit the development of a second major telecommunications force in Canada.

At CP Rail System, management continued to make substantial progress in productivity improvements despite the adverse impact of the Canadian regulatory framework and the tax policies of all levels of government. Provisions were made in 1991 for the closure of Angus Shops in Montreal and workforce downsizing throughout the organization. The strategic initiative of expanding our rail network into the United States has paid off in operating savings and enhanced revenues.

The key to the future of CP Rail System, however, lies more with the possibility of government policy being changed than it does with railway management. Canada's success in adjusting quickly to the competitive demands of a new world order in trade hinges on the degree to which all parts of the economy – especially transportation – are encouraged to realize their full potential. This requires an overhaul of outdated government transportation and tax policies that inhibit investment and stifle effective competition.

If Canada is to meet its economic and social goals, the nation must have an integrated approach to transportation that encompasses all modes and co-ordinates regulation at all jurisdictional levels. The overriding goal is to allow shippers to make the most effective use of each mode or carrier based on their true costs.

Outlook

We do not anticipate any recovery in the Canadian economy until the second half of the year. Energy, newsprint and pulp prices remain at low levels. We therefore expect another difficult year although the recent decline in the value of the Canadian dollar should be of assistance. We will continue to accelerate the implementation of our strategic initiatives and are confident that we have positioned the Company for profitable growth when economic conditions improve.

Conclusion

On behalf of the Directors, we wish to acknowledge the continuing contribution and dedication of our employees throughout the Canadian Pacific family of companies.

J.H. Hankinson

President and Chief
Operating Officer

W.W. Stinson

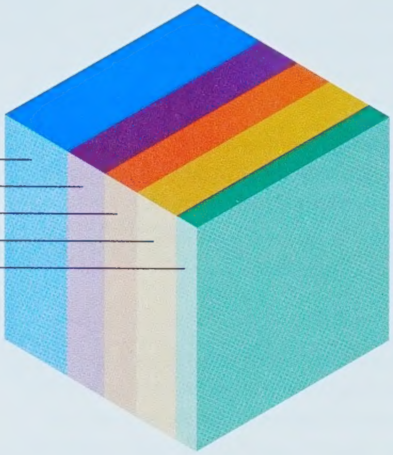
Chairman and Chief
Executive Officer

Calgary, March 9, 1992

Canadian Pacific in Profile

Assets by Business Sector

December 31, 1991



Transportation

(in millions)		1991	1990
	Revenues	**$4,074.9**	$4,028.7
	Operating Income	**$ (14.8)**	$ 294.3

CP Rail System

Ownership:	100%	
Employees:	1991	27,400*
	1990	26,900
Head Office:	Montreal, Quebec	

*includes employees of the Delaware and Hudson Railway.

- Provides rail and intermodal freight transportation over a 19,500-mile railway system serving most of the principal centres of Canada as well as the midwestern and northeastern United States.

- Seventh largest railway system in North America.

CP Ships

Ownership:	100%	
Employees:	1991	700
	1990	800
Head Office:	Hamilton, Bermuda	

- The company holds 57% of Canada Maritime Limited, which provides container services involving eight vessels between Montreal, Northern Europe and the Mediterranean.

- Although the North Atlantic trade is highly competitive, CP Ships is well positioned in a Montreal niche market.

CP Trucks

Ownership:	100%	
Employees:	1991	5,100
	1990	5,700
Head Office:	Toronto, Ontario	

- CP Trucks offers a full range of road transport services, including less-than-truckload, parcel delivery and truckload throughout Canada and the United States. About 150 terminal locations in Canada and the United States.

- CP Trucks is well positioned in terms of geographic coverage.

Energy

(in millions)		1991	1990
	Revenues	**$1,279.6**	$1,351.7
	Operating Income	**$ 184.5**	$ 424.0

PanCanadian Petroleum Limited

Ownership:	87.1%	
Employees:	1991	1,500
	1990	1,500
Head Office:	Calgary, Alberta	

- Is engaged in the exploration for and production and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Exploration and development activities are primarily in Western Canada, and products are sold mainly in Canada and the U.S.
- One of the largest Canadian-owned producers of crude oil and natural gas.

Fording Coal

Ownership:	100%	
Employees:	1991	1,400
	1990	1,400
Head Office:	Calgary, Alberta	

- Fording mines and processes metallurgical and thermal coal for markets worldwide. It provides contract mining services to utilities and oil sands projects in Alberta. Mine sites are located in Alberta and southeastern British Columbia.
- NYCO Minerals mines and processes wollastonite and tripoli for markets in North America and export.
- Fording is the lowest cost metallurgical coal producer in Canada. Competes primarily with coal suppliers from Canada, Australia and the U.S.
- NYCO is the world's largest producer of wollastonite-based products.

Forest Products

(in millions)		1991	1990
	Revenues	**$2,083.3**	$2,246.0
	Operating Income	**$ (845.4)**	$ 14.9

Canadian Pacific Forest Products Limited

Ownership:	79.7%	
Employees:	1991	13,200
	1990	14,500
Executive Offices:	Montreal, Quebec, Thunder Bay, Ontario and Vancouver, B.C.	

- Manufactures and sells a wide range of forest products including newsprint, pulp, paperboard and packaging, white paper and lumber. These products are sold in more than 40 countries. Facilities are located in six Canadian provinces and the State of Washington.
- One of the world's largest producers of newsprint and pulp.

Real Estate and Hotels

(in millions)		1991	1990
	Revenues	**$ 878.7**	$ 927.5
	Operating Income	**$ 134.4**	$ 264.4

Marathon Realty Holdings Inc.

Ownership:	100%	
Employees:	1991	1,300
	1990	1,400
Head Office:	Toronto, Ontario	

- Develops, owns and manages income producing properties across Canada and in the United States. Its extensive portfolio of high-quality real estate includes shopping centres; office, industrial and aviation-related buildings; major mixed-use projects and commercial and agricultural lands.
- One of the largest real estate companies in Canada.

Canadian Pacific Hotels & Resorts Inc.

Ownership:	100%	
Employees:	1991	15,400
	1990	8,400
Head Office:	Toronto, Ontario	

- Operates 88 hotels with 28,100 rooms, which it owns, leases, manages or franchises. Hotels are in city centre and resort locations across Canada and the United States.

- Largest hotel operator in Canada.

Telecommunications and Manufacturing

(in millions)		1991	1990
	Revenues	**$1,981.6**	$2,094.9
	Operating Income	**$ 35.8**	$ 37.3

Unitel Communications Holdings Inc.

Ownership:	60%	
Employees:	1991	2,800
	1990	3,200
Head Office:	Toronto, Ontario	

- Provides comprehensive communications services covering voice, data, text and messaging services across Canada, with connections to the U.S. and overseas.

- Canada's only national facilities-based carrier with fibre optics and digital microwave network.

United Dominion Industries Limited

Ownership:	55.4%	
Employees:	1991	9,100
	1990	10,200
Head Office:	Charlotte, North Carolina	

- United Dominion serves a variety of industrial and non-residential construction markets. Products and services include Varco-Pruden building systems; BOMAG and HYPAC compaction equipment; Waukesha Pumps and Cherry-Burrell process equipment for food, beverage and other markets; aerospace components from Fenn Manufacturing; petrochemical-related engineering services provided by the Litwin companies; and engineering, steel fabrication and erection services provided by Dominion Bridge.

- A worldwide manufacturing and engineering/construction company that ranks among Canada's largest and oldest industrials.

Waste Services

Laidlaw Inc.*

Ownership:	18.8% (47.2% voting)	
Employees:	1991	36,700
	1990	35,900
Head Office:	Burlington, Ontario	

*accounted for on the equity method.

- Provides solid and hazardous waste management services and passenger services, including school bus transportation. In addition, it has a significant interest in ADT Limited, the world leader in electronic security protection and vehicle auctions in the U.K. and the U.S., and in Attwoods plc which provides solid waste services in the U.S., the U.K. and Continental Europe.

- School bus operations serve three Canadian provinces and twenty-three states. Waste services are provided in seven provinces and twenty-five states.

- Largest school bus operator, second largest hazardous waste services and third largest solid waste services company in North America.

Canadian Pacific in the Community

The Environment

During 1991 Canadian Pacific continued to focus on environmental issues. At the parent company level, we established an Environmental and Safety Committee consisting of six members of the Board of Directors who will consider and make recommendations regarding the implementation of policies and compliance with environmental regulations affecting the Canadian Pacific group. All of our businesses have ongoing programs ranging from waste reduction and recycling to land reclamation and minimization of emissions and effluents.

Forestry

CP Forest Products is making progress to comply with proposed government regulations for air and water quality. In 1991 the company successfully completed a multi-year program to reduce the level of dioxins, furans and chlorinated organics in effluent and pulp to meet regulatory and market standards. Its four pulp mills now have non-detectable levels of dioxins and furans, and levels of chlorinated organics are lower than the industry average. Other environmental protection projects were initiated at facilities in Gatineau, Quebec and Gold River, British Columbia.

In its forest management activities, CP Forest Products planted nearly 33 million new trees in 1991, considerably more than the number harvested. The company is also carrying out environmental audits of its forest operations, focusing on the handling of waste materials such as oil, batteries, tires and solvents, as well as on methods for environmental permit applications and contingency response plans.

Energy

One of the main issues in our Energy sector is land reclamation, and both PanCanadian Petroleum and Fording Coal are committed to restore affected land to a state equal to or better than that which existed before mining or drilling operations began.

Standard activities at both companies include environmental assessments, extensive review procedures for projects, comprehensive permitting and monitoring procedures and routine reporting to regulatory agencies. Both companies are also actively involved in industry and government environmental organizations and studies.

Waste Management

With the growing movement toward waste minimization, reuse and recycling, Laidlaw is using its expertise to design and offer workable programs, tailored to customers' needs. During 1991 Laidlaw increased its curbside collection of recyclable materials and now serves 1.3 million residential customers, or 30% more customers than in 1990. Laidlaw also initiated new waste reduction and recycling services in 1991 to small generators of recyclables in suburban communities and towns, attracting some 2,000 new customers in just six months. Unique in the recycling industry is Laidlaw's 20-year agreement as the only supplier to CP Forest Products of 360,000 tons per year of recyclable newsprint and magazines to its two new de-inking mills.

In its waste-to-energy operations, Laidlaw has developed seven gas recovery projects in California during the last ten years. These installations, which use recovered landfill gases to generate electricity, produce enough power for over 50,000 homes. In 1991 Laidlaw acquired five additional gas recovery projects in the United States, thereby increasing its power output by 30% and bringing advanced gas turbine technology to Laidlaw.

As for hazardous wastes, Laidlaw's self-imposed standards exceed those imposed by regulators. Laidlaw is also carrying out a continuing program of site audits which identify facilities, processes and practices requiring improvement.

Transportation

The safe transportation of hazardous commodities over both land and water remains a prime responsibility for our businesses engaged in railway, trucking and shipping activities. These operations are also working vigorously to promote energy efficiency, effective waste management and environmental preservation and enhancement.

Charitable Donations

Canadian Pacific continues to be one of Canada's business leaders in community support. Through the 1991 Charitable Donations Program, financial assistance was provided to a wide range of causes essential to the economic health and vitality of Canadian communities. These included educational institutions and programs, health and welfare services, hospitals, youth and recreation activities, cultural programs and community facilities and projects.

IMAGINE

Canadian Pacific Limited is a major sponsor of the IMAGINE campaign to promote public awareness of charitable giving and volunteering. IMAGINE'S Corporate Program includes more than 200 "caring companies" committed to donating at least one per cent of average pre-tax profits to charity.

Waste rock from Fording Coal's mining operations in southeastern British Columbia is trucked to dump sites which are ultimately resloped and replanted. The trees and other young vegetation flourishing on this reclaimed site were planted in 1985.

Transportation

CP Rail System

The past year was one of both expansion and consolidation for CP Rail System.

The Delaware and Hudson Railway was acquired early in 1991, giving CP Rail System a strategic link into the northeastern United States market. CP Rail System now comprises CP Rail operations in Canada, the Soo Line in the American Midwest and the D & H, creating a seamless rail system between Canada and the U.S. and stretching from coast to coast.

The harsh business climate of 1991 and an even more challenging competitive environment led the railway to accelerate the streamlining of its plant and workforce. As a result, a restructuring charge of $250.9 million was incurred, producing a marked decline in operating income for the year. Lower traffic levels for many commodities, an erosion of freight rates and higher costs for labour and materials also contributed to the reduced results.

Restructuring

CP Rail System decided in 1991 to close its Angus Shops maintenance facility in Montreal. The closure, which took place early in 1992, was the result of steadily improving maintenance techniques and higher-quality replacement components that have made rolling stock more reliable. Improved productivity from rolling stock has been matched by reductions in the size of the fleet. Work formerly performed at Angus Shops will be handled at shops with excess capacity in Western Canada where 75% of the railway's business is concentrated.

In addition, CP Rail System is reducing staff in other operations and in administrative areas, resulting in a total workforce reduction of some 1,900 employees. The 1991 restructuring charge covers the anticipated costs of the various initiatives related to the workforce reduction, including voluntary separation packages, early retirement incentives, relocation costs and employment security payments.

Operating Performance

Traffic volume increased 5% in 1991, compared with the previous year, mainly on the strength of grain shipments. Grain volumes reached near-record levels as a result of excellent harvests in 1990 and 1991, together with robust international demand. In addition, the large volumes which normally are carried in the fall began late in 1990 and continued into the winter, impacting positively on the 1991 results.

The integration of CP Rail System's operations and hopper car fleets in the U.S. and Canada opened up new routings and improved equipment supply, resulting in better service and increased revenues from grain.

The economic recession caused declines in shipments of most other commodities in 1991, especially automotive and forest products.

Lumber traffic came under increased competitive pressures. Traffic volumes of paper products other than newsprint were affected by soft markets and high inventories. Container, intermodal and pool car traffic also declined during 1991, reflecting the uncertain economy.

Export volumes of Canadian coal increased and volumes on the Soo Line remained strong in 1991 due mainly to new customers. However, these increases were partially offset by reduced shipments to Chicago-area steel mills affected by the economic slowdown in the U.S., by a lower demand for coal from Ontario Hydro and by the partial shutdown of a mine located on CP Rail System track in Canada.

Potash volumes were down due chiefly to poor weather during the spring planting season, production difficulties at mines and uncertainty in product prices.

The 1991 results reflect the first full year of operations on the Delaware and Hudson Railway. The 1990 results included five months of operations on the D&H. CP Rail System expects the D&H, with its strategic access to markets in the U.S. Northeast, to add significantly to traffic volumes in the future.

While intense efforts were made to reduce costs in 1991, operating expenses escalated due to increased track maintenance and inflationary pressures on prices for business inputs.

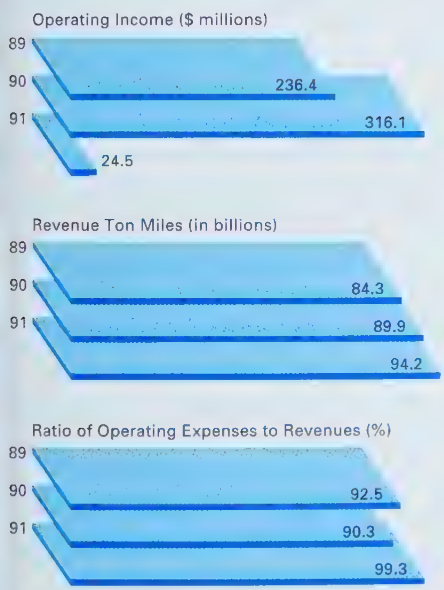
Capital Expenditures

Track-related improvement and replacement accounted for most of CP Rail System's capital expenditures of $252.6 million in 1991, compared with $265.4 million in 1990.

The capital program for 1992 will see a moderate increase in spending over 1991, mostly for basic renewals, improvements and expansion to track and roadway, the purchase of additional freight cars and special projects.

CP Rail System opened a $30 million intermodal freight terminal at Vaughan, near Toronto, in September 1991. The terminal will handle more than 100,000 trailers and containers

CP Rail System



Rail-mounted, electrically-powered cranes at the Vaughan Intermodal Terminal north of Toronto can handle loads of up to 40.8 tonnes. The new $30 million terminal is CP Rail System's most advanced freight facility and a key inland distribution centre for import/export traffic.

annually, serving Western Canadian domestic traffic and marine containers moving to and from West Coast ports. One of the most modern terminals in North America, it is designed to minimize the transfer time between rail and truck, providing a high quality of service and strengthening CP Rail System's position in the highly-competitive intermodal market.

Labour Relations

Negotiations are under way on collective agreements between CP Rail and 13 unions to replace contracts that expired December 31, 1991. Improved productivity and competitiveness are key issues. To simplify the negotiating process, CP Rail has applied to the Canada Labour Relations Board for a reduction in the number of bargaining units.

Contract settlements were reached with 12 unions representing two-thirds of the unionized employees on the Soo Line. Negotiations continue with the remaining five unions.

A major initiative in 1992 will be the implementation of a total quality management process which will involve extensive employee training and significantly enhance CP Rail System's competitiveness and efficiency.

CP Ships

Difficult market conditions for the container shipping industry continued as problems of overcapacity and rate pressure intensified with the North American recession.

During 1991 CP Ships had an operating loss of $6.9 million, compared with operating income of $1.7 million in 1990. Due to the introduction in late 1990 of a new service with improved transit times, CP Ships carried higher volumes in 1991. The benefits of volume growth were, however, offset by lower container rates on its westbound traffic.

CP Trucks

The Canadian trucking industry continues to face problems of ongoing loss of transborder markets to U.S. based carriers, overcapacity and rate pressure related to deregulation and the weak economy.

Over the past few years CP Trucks has significantly downsized its operations, exiting from a number of businesses. The company continued to streamline its operations with the sale of four divisions in 1991.

CP Trucks, affected by lower volumes and deteriorating rate levels, saw its results decline in 1991. It had operating losses of $32.4 million compared to losses of $23.5 million in 1990. The 1991 results included a charge of $9.3 million covering workmen's compensation adjustments as well as another one-time $8.0 million charge primarily for restructuring and wind-up costs of discontinued businesses.

Outlook

CP Rail System

Marginal improvement in operating income is anticipated for CP Rail System in 1992, compared with the 1991 results excluding the special charge.

Cost escalation is expected to offset most of the increased revenues from the anticipated moderate rise in traffic volumes.

Volume growth is expected to come chiefly from modal competitive traffic, as the North American economy recovers from the current recession. In addition, the development of new markets in the Northeastern U.S. will also contribute to increased volumes. Some gains are also expected in the potash, fertilizer and grain sectors.

Strong competition from other railways and from other modes of transport is anticipated in 1992. CP Rail System will respond with continued efforts to improve efficiency and lower operating costs while improving the quality of service to customers.

The federal government in 1992 will conduct the first comprehensive review of the National Transportation Act (NTA) which came into effect on January 1, 1988. In general, the regulatory changes introduced in the 1980's have benefited shippers at the expense of carriers and their employees. CP Rail System will seek to place the NTA review within a broader context of pressing issues, including an integrated approach to transportation policy, a more flexible plant rationalization process, resolution of tax inequities and greater freedom to compete.

CP Ships

CP Ships expects increased volumes as the North American economy recovers. In addition, an improved container balance between east and westbound traffic is expected to lower costs. However, overcapacity and competitive rate pressures facing the container shipping industry will persist in 1992.

CP Trucks

CP Trucks anticipates continued pressure on rates and volumes and increased competition from U.S. carriers. In response, it will continue to reduce costs and restructure operations.

PanCanadian Petroleum Limited

During 1991 PanCanadian made progress on its new strategic initiatives while continuing to improve its performance on an operating level; reserve additions exceeded production and total production of crude oil was up over 1990. Earnings and cash flow were lower than in 1990 when events in the Persian Gulf increased oil prices.

New Strategic Direction

PanCanadian plans to increase reserves and production with a cost structure realigned to meet the demands of the current environment. During 1991 it concentrated on improving performance and reducing costs throughout its operations.

To lower total operating costs, the company is focusing on its core assets and disposing of non-strategic assets. In 1991 the company disposed of its 35% interest in a methanol plant and has a conditional agreement to sell its U.S. oil and gas assets.

To reduce administrative costs the company reviewed organizational structure in 1991 and initiated plans to streamline operations and reduce staff.

To make better use of its large land base, PanCanadian is accelerating development by increasing capital expenditures for exploration and development and by increasing farmouts and lease sales.

Also, to reduce finding and development costs, PanCanadian is looking internationally for areas where these costs have historically been lower. During the year PanCanadian became one of the first Canadian companies to enter into a Russian joint venture. Together with Canadian Fracmaster Ltd., PanCanadian will provide technical expertise and equipment for enhanced oil recovery from a field located in Western Siberia in return for revenues from incremental oil production. PanCanadian and Canadian Fracmaster each hold a 25% interest in the venture, with a Russian partner holding the balance.

Some of PanCanadian's strategic initiatives resulted in special charges. These charges included a write-down of $52.0 million in the value of its U.S. operations, which are conditionally sold, and a provision of $22.0 million for a reduction of employment levels in the order of 14% completed early in 1992. Special charges in 1991 also included a write-down of $48.0 million in the carrying value of PanCanadian's investment in the OSLO oil sands project.

Oil and Gas Prices

Lower oil prices contributed to a 7% decline in PanCanadian's revenues from conventional crude oil. An aggressive hedging program, implemented in the second half of 1990, helped limit the company's exposure to falling oil prices. Under the program, PanCanadian hedged 12.2 million barrels of conventional crude oil in 1991 at an average price of U.S. $26.23, yielding incremental revenues of $65.6 million, compared with $2.3 million in 1990. The program raised the average price of PanCanadian's conventional crude oil to $20.11 per barrel, which was down from $22.60 per barrel in 1990. Excluding the effect of the hedging program, the average price received for conventional crude oil declined 24% to $16.98 per barrel in 1991. For 1992 PanCanadian has sold forward

3.7 million barrels, or approximately 16% of estimated conventional production, at an average price of U.S. $22.67 per barrel. Revenues from synthetic crude oil were down 10%, because the average price received was $22.77 per barrel in 1991, compared with $26.74 in 1990.

The supply and demand imbalance in North American gas markets continued to force prices down with gas prices at their lowest in more than a decade. Though sales volumes were essentially unchanged from 1990, the average price received in 1991 decreased 11% to $1.40 per thousand cubic feet, causing an overall 10% decline in revenues from natural gas.

Operating Performance

On an operating level, PanCanadian had one of its most active and successful years ever. While natural gas volumes were essentially unchanged from 1990, production of conventional and synthetic crude oil increased 5% and 6%, respectively, in 1991. The contribution of light and medium grades of crude oil rose to 90% of conventional crude oil production in the Canadian operations, a 3% increase over 1990, reflecting PanCanadian's greater emphasis on lighter grades of crude oil. In 1991, 161 new operated oil wells were brought on stream, adding more than 7,700 net barrels of oil per day. Again this year additions to reserves exceeded production. Proved conventional reserves additions were 67 million barrels of oil equivalent, replacing 139% of 1991 production.

Capital Expenditures

Additions to properties amounted to $390.0 million in 1991, up 15% over 1990. Spending was concentrated mainly in the eastern, central and foothills regions of Alberta, and in southeastern Saskatchewan. PanCanadian had interests in the drilling of 840 wells during 1991, 331 royalty interest and 509 working interest wells.

Fording Coal

Fording Coal continued its strong performance in 1991, despite several obstacles which confronted the export coal industry. Depressed coal prices and the strong Canadian dollar had a negative effect on the industry's profitability resulting in mine sales and notices of pending mine closures.

In addition to having developed new markets for its coal in recent years, Fording has been successful in diversifying its overall activities. In 1991 combined operating profit from these other activities exceeded 1990 levels, offsetting the negative effect of the strong Canadian dollar on results of its Fording River operations during the year.

Fording River Operations

Through continued expansion of its customer base, high productivity levels and continued emphasis on cost control, Fording maintained its position as the lowest cost producer of metallurgical coal in Canada. Sales volumes increased 1.7% to 6.1 million tonnes in 1991, with higher shipments to Japanese and European customers replacing reduced North American tonnages. The revenue increase stemming from this additional volume was offset by the impact of the strong Canadian dollar and higher operating costs and, consequently, operating income declined $6.5 million.

Other Operations

On July 1, 1991 Fording began overburden removal at Syncrude's Mildred Lake operations near Fort McMurray, Alberta under a 10-year contract with Syncrude to remove 12 million cubic metres of overburden annually. During the six-month period six million cubic metres of overburden were removed, which was 20% above the forecast volume.

Commencing January 1, 1991 Fording negotiated a five-year extension to its contract to supply thermal coal

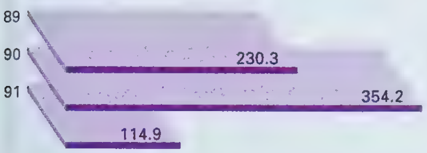
PanCanadian's Weighted Average Prices Received

	1991	1990	1989
Conventional Crude Oil[1]	$20.11	$22.60	$18.40
Synthetic Crude Oil[1]	$22.77	$26.74	$21.37
Natural Gas[2]	$ 1.40	$ 1.57	$ 1.51

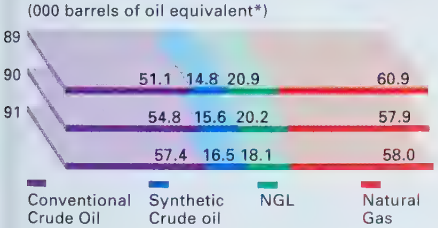
[1]per barrel
[2]per thousand cubic feet

PanCanadian Petroleum

Operating Income ($ millions)

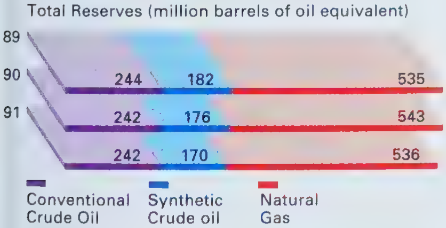


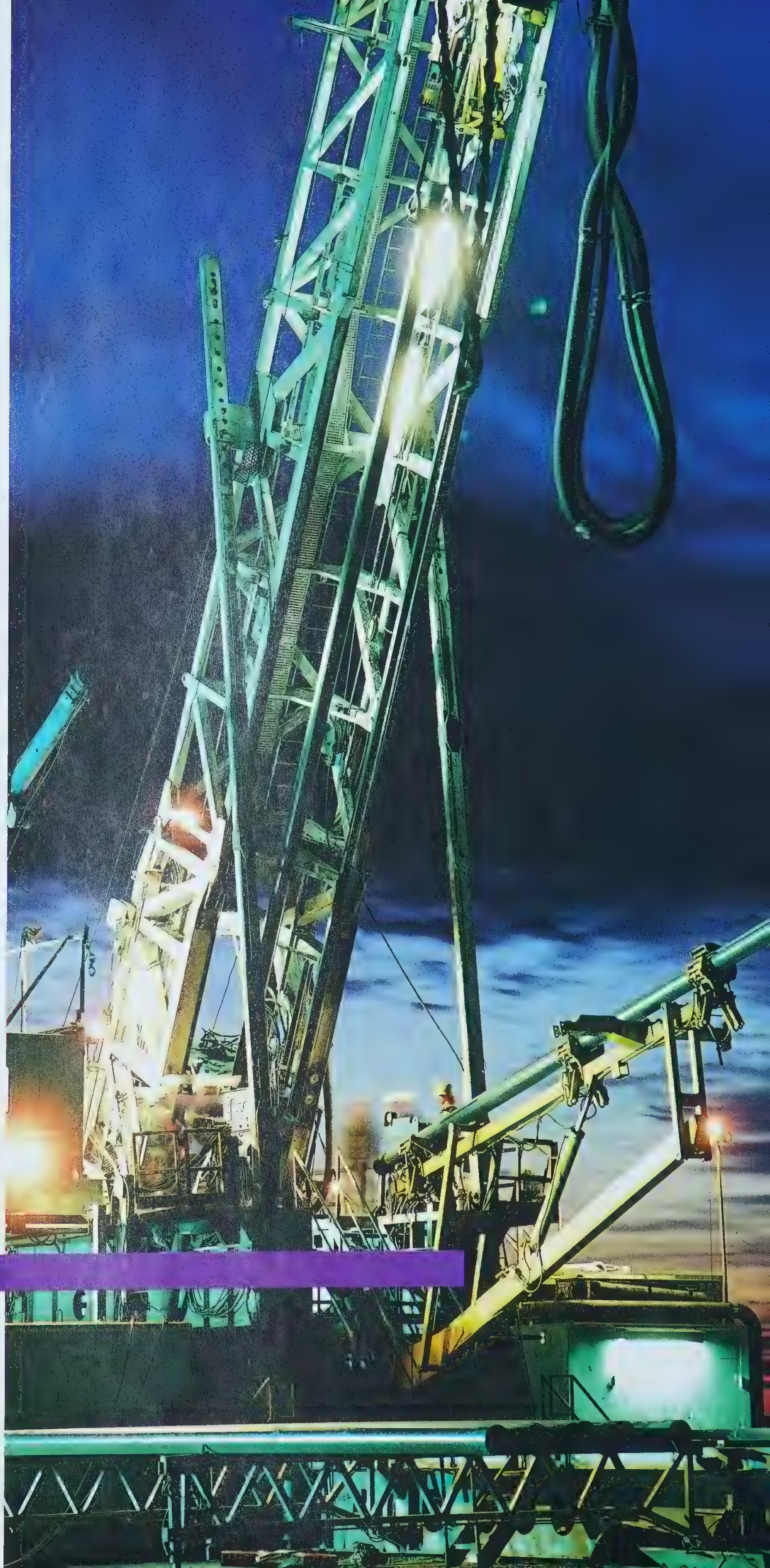
Average Daily Production
(000 barrels of oil equivalent*)



* after royalty

Total Reserves (million barrels of oil equivalent)





A PanCanadian slant drilling rig, the most advanced in North America, operates in the Lindberg heavy oil field near Elk Point, Alberta. The specially-designed rig has enhanced depth capabilities and has minimized environmental impact by drilling up to 12 wells from one drill pad.

from its Whitewood mine to the TransAlta Utilities Wabamun Power Plant near Edmonton, Alberta. Production from Whitewood in 1991 was up 2.5% over 1990.

At Fording's Genesee mine in Alberta, production was 1.7 million tonnes in 1991. In December 1991, the Energy Resources Conservation Board approved the construction of a second generating unit for Edmonton Power at Genesee, with completion scheduled for October 1994. Fording Coal and Edmonton Power are reviewing the schedule for construction of the second dragline needed for the expansion of the power plant.

NYCO Minerals

Despite lower domestic sales, operating income from NYCO Minerals increased $2.7 million in 1991. The reduced sales volumes in the U.S. were offset by increased shipments to Europe and Japan, coupled with increased prices for wollastonite and tripoli. In 1991, NYCO Minerals restructured its marketing network, implemented cost reduction measures and began a plant improvement and expansion project. These measures will enable NYCO Minerals to increase its range of products and capitalize on market growth opportunities in the automotive sector and as an asbestos substitute.

Outlook

PanCanadian

PanCanadian projects slightly lower average market prices for crude oil and continued price volatility for the year 1992. However, the anticipated narrowing of price differentials between light and heavy crude oil, together with higher production volumes, should result in PanCanadian's crude oil revenue being similar to that of 1991. Direct marketing efforts are expected to increase gas volumes and offset continuing erosion in natural gas prices. Stable unit operating costs are expected for oil production due to operational efficiencies, and unit operating costs for natural gas are expected to decline reflecting increased volumes and ongoing efforts to achieve operational cost savings.

For 1992 exploration and development expenditures are estimated to increase by 3% to about $400 million. These expenditures will be concentrated on conventional oil and gas exploration and development within Canada, focusing on freehold lands where the return is greater. International exploration and investment in the Russian joint venture are projected to be between 5% and 10% of the planned expenditures.

Fording Coal

Although Fording Coal expects overall metallurgical coal volumes in 1992 to remain at the same level as 1991, results will reflect a decline in average selling prices from 1991.

Negotiations with the Japanese steel mills were recently concluded. In line with the rest of the industry, the contract price declined by U.S. $0.50 to U.S. $51.30 per tonne effective April 1, 1992. Contract volumes were also reduced due to the expectation of lower Japanese steel production in 1992. However, Fording expects that the reduction in planned Japanese shipments will be offset by an increase in sales to other customers.

1992 results should benefit from the introduction of larger mining equipment and increased productivities at Fording River Operations, a full year of operations at Mildred Lake and continued improvements forecast for Genesee, Whitewood and NYCO Minerals.

Fording's Coal Sales Volume by Area

(%)	1991	1990	1989
Japan	36	29	36
North America	5	17	19
South America	9	8	5
Europe	17	10	3
Korea	15	18	19
Other Pacific Rim	18	18	18

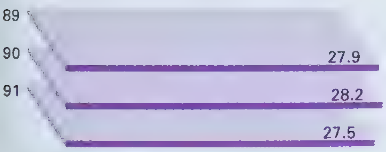
Fording Coal

Operating Income ($ millions)

Net Realized Coal Prices ($/MTCC*)

* Metric tons of cleaned coal

Cleaned Coal Productivity*(MTCC per manshift)



*Fording River Operations

This 44-cubic-metre shovel can load the 218-tonne-capacity trucks used at Fording Coal's Mildred Lake Operations in three passes. Fording has a 10-year contract to remove 12 million cubic metres of overburden annually at Syncrude Canada's oil sands mining site north of Fort McMurray, Alberta.

Canadian Pacific Forest Products Limited

Poor economic conditions and the continuation of the cyclical downturn in the pulp and paper industry left their mark on CP Forest Products in 1991. New capacity coming on stream created an additional imbalance in almost every sector of the industry and contributed to severe price declines. The strengthening of the Canadian dollar compounded the industry's problems.

In this context, CP Forest Products implemented some key strategic decisions that will improve its long-term competitive position. These decisions resulted in one-time charges amounting to $528.3 million before tax.

Strategic Review

CP Forest Products conducted an extensive review of all its operations in 1991. Decisions taken included:

- The permanent shutdown at the end of June 1992 of the groundwood specialties newsprint mill in Trois-Rivières, Quebec unless a buyer is found before then. This will affect approximately 1,500 employees, including those in related forest operations, and has resulted in a pre-tax charge of $239.4 million.
- The downsizing in 1992 of the newsprint mill at Dalhousie, New Brunswick, by permanently shutting down two older, less efficient paper machines. The number of employees, including those in related forest operations, will decline by about 525 and a pre-tax charge of $152.6 million has been taken.
- A write-down of $136.3 million in the value of the paperboard and packaging business. CP Forest Products intends to sell certain paperboard and packaging units but is no longer actively seeking a buyer for its La Tuque, Quebec mill where efforts are under way to improve productivity and restore profitability.
- The sale of the Facelle tissue business in the third quarter of 1991.

Newsprint

With the shutdown of the Trois-Rivières mill and the downsizing of the Dalhousie mill, CP Forest Products has modern, high-quality newsprint facilities across Canada. Approximately 50% of its newsprint capacity is based on machines built since 1989.

Completion in 1991 of the $500 million modernization and expansion program at Thunder Bay gives CP Forest Products one of the best-equipped, most efficient newsprint mills in Canada. A $390 million modernization program at the Gatineau newsprint mill is scheduled to be completed in 1993. It includes machine modernization, a new thermo-mechanical pulp mill, and a recently-completed de-inking plant.

CP Forest Products has become the leading North American supplier of recycled-content newsprint. At full production, the new de-inking facilities at Thunder Bay and Gatineau will enable CP Forest Products to produce more than 900,000 tonnes of de-inked, recycled-fibre content newsprint annually.

CP Forest Products' Shipments

(000 tonnes)	1991	1990	1989
Newsprint	1,309	1,173	1,492
Pulp	662	618	899
Paperboard & Packaging	403	343	352
White Paper	213	190	131
Lumber (million board feet)	382	388	428

Offshore newsprint demand increased in 1991 but there was a sharp decline in newspaper advertising in North America and this led to a substantial drop in newsprint consumption at a time when new capacity was coming on stream. A U.S. $35 per tonne increase on January 1, 1991 was rescinded on April 1 and price discounting intensified throughout the remainder of the year. CP Forest Products' shipments were up from 1990 when production was curtailed by labour disruptions.

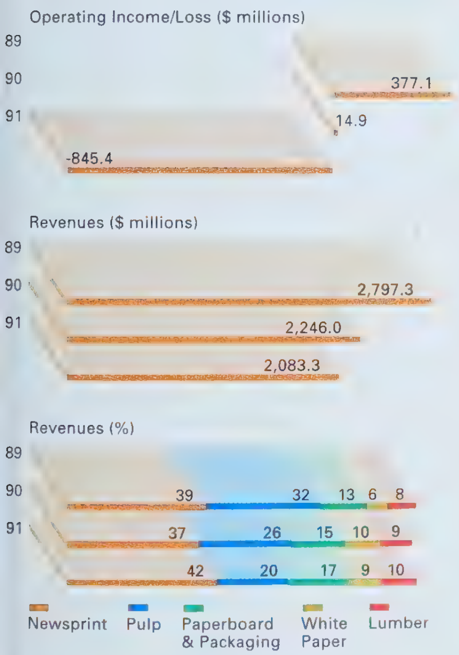
The equity in the losses of joint ventures was $17.5 million less than in 1990, reflecting greater production volumes, improved operating performance and lower costs at the Gold River and Ponderay newsprint mills. During 1991, CP Forest Products made additional equity investments of U.S. $11.5 million in the Ponderay Newsprint Company joint venture and $83.0 million in additional subordinated notes in the Gold River Newsprint Limited Partnership joint venture.

Pulp

CP Forest Products has made significant environment-related investments during the last few years in its pulp operations. Its four pulp mills do not produce any detectable levels of dioxins and furans. CP Forest Products has built secondary effluent treatment systems at two locations and has a third under construction at Gold River. All mills are equipped with large chlorine dioxide generators for the bleaching process which enable production with a signifcantly reduced volume of molecular chlorine.

Pulp prices fell in 1991 reflecting lower production of printing papers in North America and worldwide overcapacity. Prices for northern bleached softwood kraft pulp were at the U.S. $500 level by the fourth quarter of 1991, down from a peak of U.S.

Canadian Pacific Forest Products Limited



These flotation cells are the heart of the recycling process at CP Forest Products' new Thunder Bay recycling plant. Old newspapers and magazines are pulped into a liquid slurry and fed through the cells where ink is removed from the fibre, floated to the top of the slurry and skimmed off.

$830 in the first half of 1990. Price increases of U.S. $20 per tonne for world markets were implemented on December 1, 1991 and February 1, 1992. Market pulp sales volume increased 7% over 1990 levels when shipments were interrupted by strikes. Total kraft pulp production was up 15% due to greater integrated use of kraft for manufacturing white paper at the Dryden, Ontario mill.

White Paper

CP Forest Products has established a strong reputation for quality, consistency and reliability in the North American white paper market. Its operations are well located to serve major markets.

A new paper machine started up in 1989 more than doubled the capacity of the Dryden mill and increased the flexibility to move into higher margin specialty products. Several new products were introduced during 1991 for the financial printing and pharmaceutical markets.

The North American white paper market was affected by weak demand and reduced prices in the first half of 1991. Selling prices started to recover in mid-1991 but declined again in the fourth quarter.

Lumber

Investments totalling $80 million have been made over the past five years at CP Forest Products' sawmills in British Columbia to upgrade the product mix and improve lumber recovery. During this period, CP Forest Products has increased sales of higher value-added products and reduced reliance on commodity lumber grades.

Oversupply and limited demand in the world lumber market in 1991 resulted in high inventories and low prices.

Paperboard and Packaging

As part of its strategic review, CP Forest Products decided to withdraw from the paperboard and packaging business through the sale of selected operations. These operations are small in relation to its competitors and increased imports from the U.S. over the last few years have eroded CP Forest Products' competitive advantage. Consequently, CP Forest Products wrote down its paperboard and packaging assets to reflect current value, announced its intention to sell a corrugating medium facility in Matane, Quebec and converting plants in Quebec and Ontario. It will continue production of paperboard at the La Tuque mill and take measures to improve productivity, increase efficiency and reduce operating costs.

Capital Expenditures

Capital expenditures amounted to $349.8 million in 1991, compared with $428.6 million in 1990. The 1991 program, which included $52.1 million for environment-related projects, was principally for the completion of the modernization program at Thunder Bay and continuation of the modernization program at Gatineau.

CP Forest Products has capital spending requirements totalling $300 million to complete projects in progress. Over the next four years, an estimated $190 million of capital spending will be required to meet proposed federal and provincial pulp and paper environmental regulations, of which $50 million relates to projects in progress at the end of 1991.

Financing Activities

CP Forest Products increased its borrowings in 1991 because of a negative cash flow from operations and to fund its capital spending program. This resulted in a debt:equity ratio of 54:46 at December 31, 1991, compared with 33:67 at the end of 1990. In February 1992, CP Forest Products issued 8.5 million common shares. Canadian Pacific purchased 1.7 million, reducing its ownership from 79.68% to 70.01%. CP Forest Products' net proceeds of $218 million will be used to reduce indebtedness and the debt:equity ratio should improve to 45:55.

Outlook

CP Forest Products expects higher operating rates than the newsprint industry this year because of its rationalization program and the start-up of its recycled-content newsprint facilities. Nevertheless, the newsprint business is expected to remain weak in 1992 due to excess capacity, a sluggish recovery in North America and weak growth rates in Europe and Japan.

Recent price increases indicate a gradual improvement in the market pulp sector. However, new capacity starting up in 1992 will exert pressure on operating rates. CP Forest Products will continue to seek new opportunities for its high quality bleached softwood kraft pulp in growing markets in Southeast Asia and the Pacific Rim.

Increased demand for white paper will be required in 1992 to absorb new capacity and achieve higher operating rates and selling prices. CP Forest Products hopes to capitalize on potential growth in its prime north-central U.S. market.

Lumber is heavily dependent on housing starts. Recent declines in interest rates should help the housing sector which is typically one of the first sectors to recover from a recession.

An agreement reached with CP Forest Products' pulp and paper employees in British Columbia in 1991 provides for an extension of the existing contract to April 30, 1992. In Eastern Canada, three-year collective agreements covering primary and woodlands employees do not expire until 1993.

Real Estate and Hotels

Marathon Realty

With the continuing depressed North American real estate market, Marathon's operating results in 1991 were lower mainly because of a combination of reduced gains on sales of non-strategic assets and higher write-downs on income properties and sites. However, its rental income from buildings and shopping centres increased due to the benefits of new development projects coming on stream in its major markets where Marathon enjoys a competitive advantage – Montreal, Toronto and Vancouver.

Marathon is continuing its program to dispose of non-strategic properties as market conditions permit. During the year Marathon sold several smaller office buildings, primarily in British Columbia, an apartment building in Calgary, a shopping mall in Mississippi and commercial and industrial lands in California. Marathon also recorded a write-down of $58.5 million in the carrying value of certain non-strategic assets identified for sale; in 1990 there was a provision of $38.0 million to write down the carrying value of Marathon's U.S. land and development sites.

Buildings

During 1991 Marathon reached the final stages of construction on several large-scale projects.

Leasing activity was brisk, despite a very competitive market. The Buildings group signed 1,369,000 square feet of leasable area, of which 761,000 square feet were new leases and 608,000 were renewals.

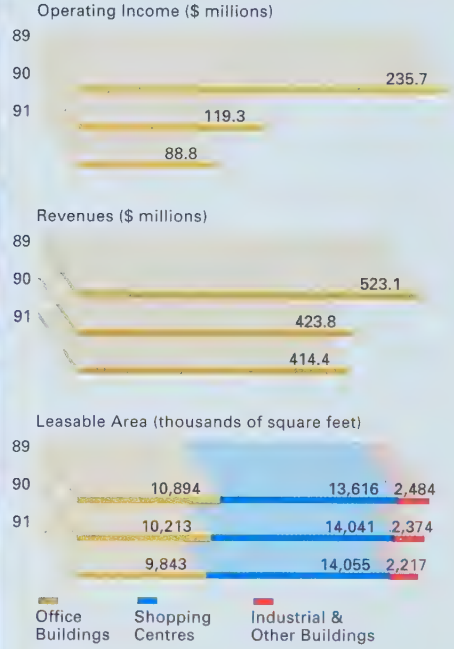
Marathon's largest current construction project is the 47-storey 1250 boulevard René-Lévesque building in Montreal. This joint venture project with IBM Canada is scheduled for a fall 1992 completion.

In Toronto, MetroCentre's 315,000 square-foot Unitel building was completed and fully leased. Construction of the twin Sun Life building is proceeding on schedule and has also been completely leased. Together with centrepiece Metro Hall, for which Marathon is the development manager, these buildings form a complex around a three-acre park including 68,000 square feet of retail space, with direct access to the subway and downtown underground pedestrian walkway. The complex is scheduled for completion in September 1992. The 314,000 square-foot Atria III building in North York, Ontario was completed and occupied by lead tenant Zurich Life Canada. The Southtown project, which involves the proposed development of a 35-acre mixed-use site adjacent to Toronto's financial district, was significantly advanced when the City Council approved the Official Plan and Zoning By-laws for the Railway Lands East. This project awaits the finalization of municipal approvals and favourable market conditions.

Number of Marathon's Completed Properties at Year-End

	1991	1990	1989
Office Buildings			
Canada	23	25	31
United States	4	4	4
Shopping Centres			
Canada	15	15	16
United States	12	13	13

Marathon Realty



The Waterfront Centre office, hotel and retail complex is a cornerstone of Marathon Realty's 82-acre Coal Harbour development on the Vancouver waterfront. It includes a 489-room hotel (foreground) managed by Canadian Pacific Hotels & Resorts, a 370,000-square-foot office tower and a 32,000-square-foot retail concourse.

Vancouver's Waterfront Centre, a two-tower linked complex adjacent to Granville Square and Coal Harbour opened in the fall of 1991. The 370,000 square-foot office building was 74% leased by year end and the 489-room hotel, which is managed by CP Hotels, has been operational since June. Because of a favourable local economy, Marathon will undertake preliminary site servicing work during 1992 on the first phase of Coal Harbour, an 82-acre mixed-use site on the waterfront in downtown Vancouver.

Shopping Centres

The challenges facing shopping centre operators during 1990 brought about by a recessionary economy were even more demanding in 1991. In Canada, sales figures at Marathon's shopping centres were affected by a combination of the recession, the introduction of the Goods and Services Tax, and cross-border shopping. Because of business closures, occupancy levels were 95%, compared with 97% in 1990. Marathon was protected somewhat by its strategy of focusing on shopping centres which dominate their markets and by the portfolio's geographic coverage, as weakness in central Canada was offset to some degree by a stronger economy in Western Canada. During 1991, leasing activities were favourable, with 345,000 square feet of new leases executed along with 320,000 square feet of renewals.

During 1991, the economy supported expansion at only one shopping centre in the Canadian portfolio. The 534,000 square-foot Orchard Park centre in Kelowna, B.C. saw construction of an additional 150,000 square feet get well under way. Eaton's, as fourth anchor, will occupy 80,000 square feet and more than half of the remaining 70,000 square feet was leased by year end with promising commitments for the balance. The project is slated for completion in August 1992.

In the U.S. Shopping Centres group, some improvement in occupancy rates occurred in 1991. By year end there were 321,000 square feet occupied by new tenants, 106,000 square feet of new lease commitments and 47,000 square feet of renewals. During 1991, Marathon completed its expansion of Vista Ridge Mall in the Dallas-Fort Worth area of Texas with the opening of 280,000 square feet of additional retail space.

Canadian Pacific Hotels & Resorts Inc.

Canadian Pacific Hotels, along with the entire lodging industry in 1991, suffered from the effects of the recession in North America. Problems were compounded by the Gulf war early in 1991, the high Canadian dollar and the introduction of the Goods and Services Tax.

Although benefits were derived from an improved quality of service and expansion into the U.S., operating earnings were down in 1991 due mainly to lower occupancy levels and an inability to raise rates to fully offset cost increases. In addition, 1990 results included an $8.4 million gain on the sale of an 80% equity interest in the Chateau Whistler Resort in British Columbia.

Owned Hotels

The effects of the sluggish economy and the depressed corporate and convention business were particularly evident in Eastern Canada. The Montreal market was affected by the prolonged softness in the convention and Group/Tour segments. In the Ontario and Atlantic Regions both occupancy

Number of Hotels and Rooms at Year-End

	1991		1990		1989	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Canada						
Owned	16	8,400	14	7,600	15	8,200
Managed/Leased	11	3,400	10	3,400	10	3,100
United States						
Managed/Leased	46	12,800	41	12,700	—	—
Franchised	15	3,500	18	3,500	—	—
Total	88	28,100	83	27,200	25	11,300

and average room rates fell short of last year's levels, reflecting a very competitive rate cutting environment in order to maintain market share. City hotels in Alberta and British Columbia experienced shortfalls in transient, corporate meetings and tour package segments. On the bright side, the resorts in the Canadian Rockies continued to do well, drawing on tourists from the U.S. and the Pacific Rim countries, especially Japan.

Following a complete restoration, the Hotel Macdonald in Edmonton re-opened in May 1991. The re-opening of this historic landmark has been very well received by the community.

Managed Properties

The operations of Doubletree Hotels Corporation acquired in December 1990 have performed better than expectations, contributing $5.3 million to CP Hotels' operating income in 1991. This acquisition has improved CP Hotels' growth capability, particularly with respect to the important U.S. marketplace. Efforts are under way to integrate the Canadian and U.S. operations in terms of marketing, sales, reservations and systems.

CP Hotels began to manage Marathon's new Waterfront Centre Hotel in Vancouver in July 1991. This hotel complements the Hotel Vancouver in boosting CP Hotels' presence in that city. Late in the year the company also began to manage Le Tremblant Club in Quebec.

Capital Program

CP Hotels' extensive renovation and upgrading program which commenced in 1987 is now almost complete. In addition to the completion of the restoration of the Hotel Macdonald, major projects were carried out in 1991 at the Chateau Frontenac, the Chateau Laurier, the Royal York, the Palliser Hotel, Jasper Park Lodge, Banff Springs and the Hotel Vancouver. Most of these heritage properties will have been completely renovated by the end of 1992.

Outlook

Marathon Realty

Long term prospects for Marathon are good because its buildings are well located and new developments are high calibre, competitive and attractive. However, 1992 is expected to be another difficult year. Steadily rising vacancy rates will adversely affect Marathon's Buildings group, placing significant downward pressure on rental rates for both new and re-leased space.

Only modest improvement is anticipated for the Shopping Centres group. In the southern U.S., where retail sales are projected to advance only moderately, sales at Marathon's shopping centres are expected to outpace the regional sales as they have over the past four years. In Canada, retail sales are expected to remain sluggish in 1992, thereby affecting rentals.

Marathon's earnings and cash flow in 1992 will continue to be heavily influenced by land sales and sales of non-strategic income producing properties. Although low interest rates should help the sales program, demand for these assets will likely continue to be weak. There is, consequently, uncertainty as to the timing of asset sales.

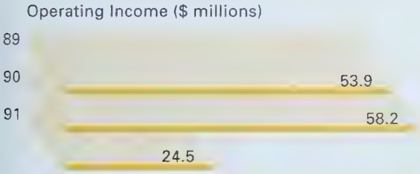
Marathon is continuing its endeavours to reduce debt and exposure to floating rate debt and has a highly focused finance plan to help it achieve its financial and strategic goals.

Canadian Pacific Hotels

All of CP Hotels' regions are expected to show modest improvement in 1992, as business travel and convention bookings gradually improve in line with a slow economic recovery and reduced resistance to the Goods and Services Tax. There will also be a full year of management fees from the Waterfront Centre Hotel and Le Tremblant Club and increased fees from the other managed properties. Further improvement is anticipated from the Doubletree operations, because of the synergies with the Canadian operations and additional management fees from existing and new properties.

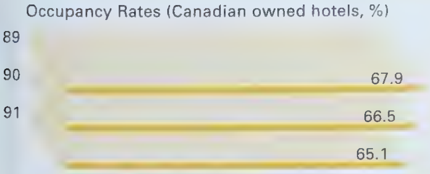
Canadian Pacific Hotels

Operating Income ($ millions)



Average Room Rates(Canadian owned hotels, $)

Occupancy Rates (Canadian owned hotels, %)



The chateau-style Hotel Macdonald, an Edmonton landmark since it was first built in 1915, reopened in 1991, after more than a year of renovation work. The 198-room hotel's elegant heritage features have been restored to their original state and modern comforts and conveniences have been added.

Unitel Communications Holdings Inc.

Despite the recession and an aggressive pricing strategy by competing telephone companies, Unitel Communications had a better year. For the third consecutive year, Unitel's revenues showed solid gains, making the company one of the three fastest growing long distance carriers in North America. Its success in 1991 was also attributable to lower expenses, achieved through a 20% reduction in the labour force, careful expense control and implementation of programs to reduce leased facilities payouts.

New Services

Unitel continues to post strong revenue gains from its new services reflecting intense marketing and sales efforts. These services include FacsRoute, a facsimile messaging service, FasPac, a public packet switched data service, and MACH, an integrated high speed digital voice and data private line service.

1991 Projects

In keeping with its program to improve customer service quality, Unitel continued to extend its facilities and convert older analog technology to digital. During 1991 Unitel completed an extension of its digital microwave network to St. John's, Newfoundland and placed into service a second fibre transmission system between Toronto, Ottawa and Montreal.

Regulatory Policies

The most important regulatory issue for Unitel in 1992 is the decision by the CRTC on Unitel's application for permission to enter the public long distance telephone market. Lengthy hearings were held in 1991 and a decision is expected in the first half of 1992. This decision will shape the future of the Canadian industry since only with competition will new services be introduced and rates significantly reduced in Canada.

United Dominion Industries Limited

The impact of the North American recession on the non-residential construction industry resulted in declines in United Dominion's revenues and operating income in 1991. The reductions were concentrated in the Construction Products and Services segment and the Industrial Products segment. The Engineering Services segment continued to have active markets for its services and a strong order backlog.

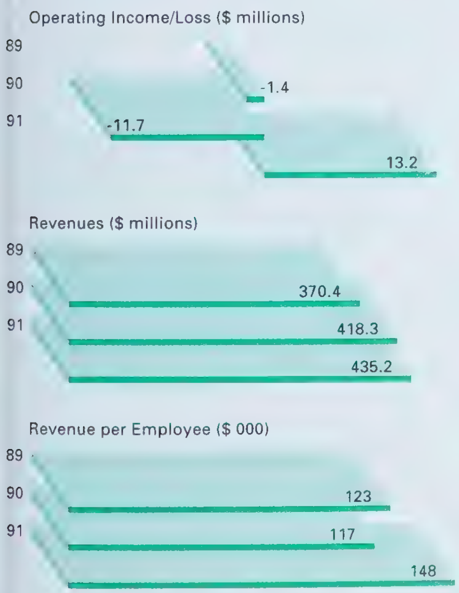
Construction Products and Services

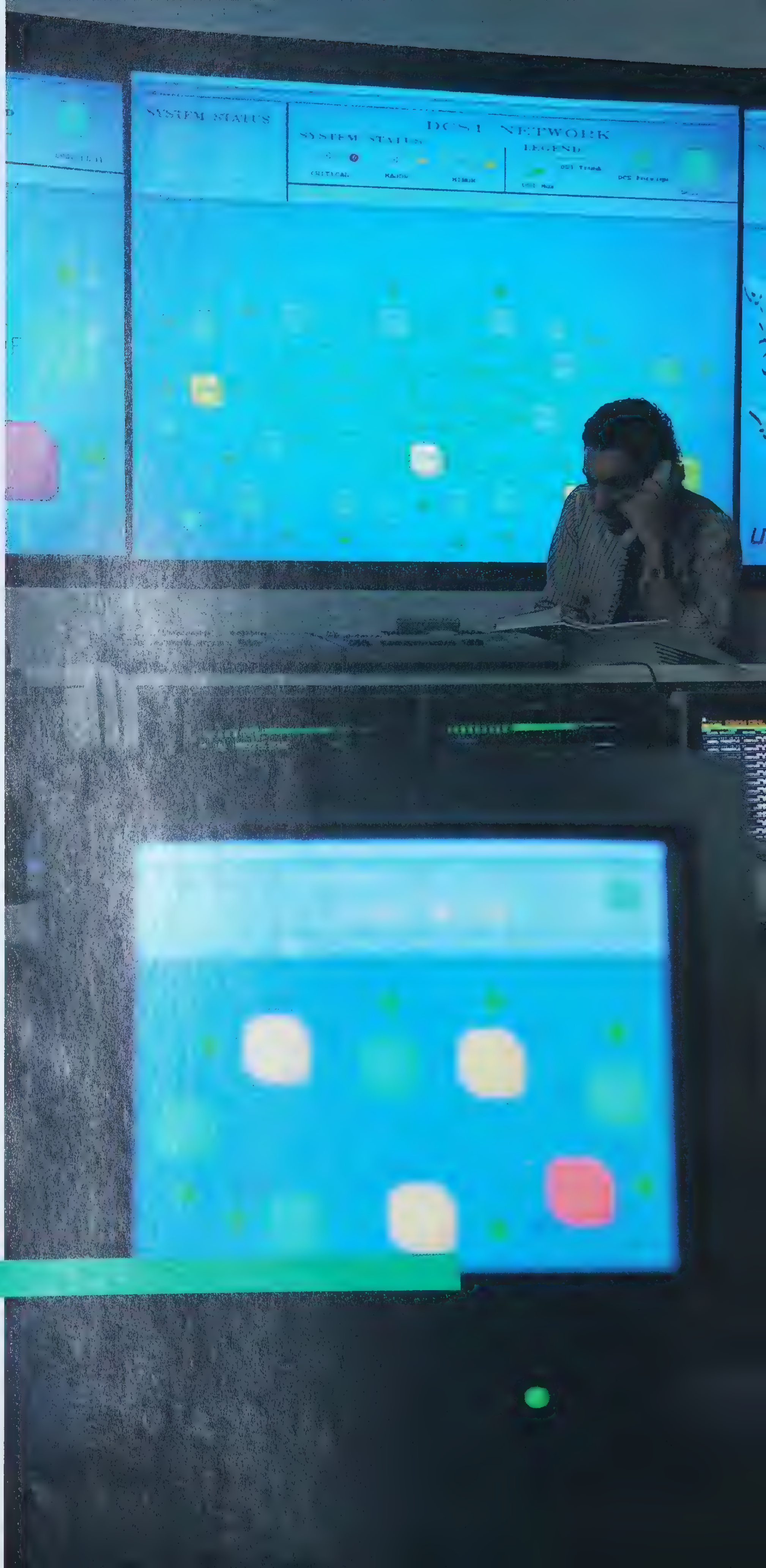
Sales and operating income were down 8% and 77%, respectively, in 1991.

The Varco-Pruden buildings division was affected by lower volumes and depressed operating margins. The construction division was similarly affected but gained some benefit from public spending for government and health care facilities in the U.S. The Dominion Bridge division had higher earnings on reduced sales because of performance gains and claims settlements on prior year projects. Dominion Bridge has downsized significantly over the last few years and is in a good position to cope with current weak markets.

United Dominion acquired Robertson Building Products and Ceco Door Products in January 1992 for approximately U.S. $135 million. These U.S. based companies manufacture a wide variety of metal wall and roofing systems, commercial and industrial doors, and other construc-

Unitel Communications





Unitel's network management centre in Toronto monitors the performance of high-capacity fibre and digital systems around the clock. The centre uses state-of-the-art technology to identify and isolate causes of service failures, reroute traffic, and activate and restore service with a minimum of disruption.

tion products. They have significant growth potential and are compatible with United Dominion's other units.

Industrial Products

Sales decreased 7% and operating earnings were down almost 50% in 1991.

The BOMAG/HYPAC compaction equipment operations were adversely affected by depressed construction markets in North America and weakness in many European and other foreign markets. Sales and earnings of the food equipment division were affected by sluggish markets and remained essentially unchanged from 1990. In the aerospace division, Fenn Manufacturing had slightly higher profits on lower sales as demand for high margin products rose during the Persian Gulf war.

Early in 1991, United Dominion sold its packaging equipment business and its Monroe Forgings unit. It recently acquired an industrial pump manufacturer in the Netherlands.

Engineering Services

Sales were up 25% and operating earnings were almost twice as high as in 1990. The Litwin companies in the U.S. booked a record level of new orders. More stringent environmental legislation in the U.S. and a move toward reformulated gasoline have provided opportunities for refinery upgrades and retrofits.

The Litwin group in Europe was profitable primarily because of performance gains related to prior years. This unit's traditional markets have suffered from the economic problems in the eastern European countries and the former Soviet republics.

Menck, which designs and manufactures pile-driving hammers, has suffered from low activity in its offshore markets and recessionary conditions in its on-land markets.

Outlook

Unitel

Although the telephone companies are expected to continue to compete aggressively, Unitel will continue to concentrate on solid revenue growth through improved sales effectiveness and higher value-added services. Expense containment will also continue to be another priority. Unitel also plans to continue to improve and expand its digital network services.

United Dominion

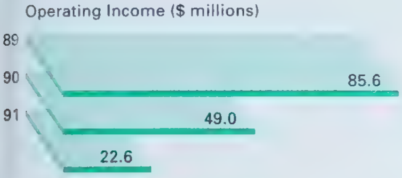
Some improvement in earnings is anticipated in 1992 as a result of streamlining and cost reduction programs implemented last year and the Robertson-Ceco acquisition.

The outlook for the U.S. Litwin companies is very favourable. They have a large order backlog and are successfully diversifying and expanding in the petroleum refining and petrochemical industries. Better results are also expected from the food equipment operations.

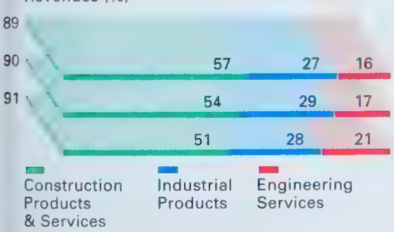
United Dominion's other businesses will be affected by weak and uncertain market conditions that are expected to prevail until there is a significant improvement in the economy.

United Dominion Industries

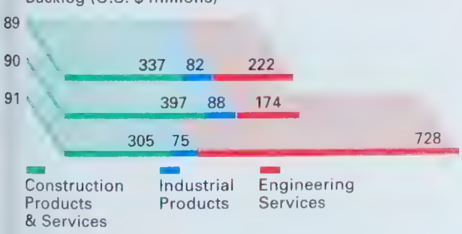
Operating Income ($ millions)



Revenues (%)



Backlog (U.S. $ millions)



Litwin is engineering and building this continuous catalyst regeneration platform unit at the National Cooperative Refinery Association plant in McPherson, Kansas. The unit will improve manufacturing of unleaded gas and meet standards mandated by the Clean Air Act in the United States.

Laidlaw Inc.

CP Limited's loss from Laidlaw Inc., representing an 18.8% equity interest, amounted to $98.9 million in 1991. This compares with income of $32.4 million in 1990 and $28.4 million in 1989. During 1991 Laidlaw reviewed its holdings in ADT Limited, which is chiefly engaged in security services and vehicle auctions, because of significant adverse changes in ADT's non-core related investments and activities. Laidlaw accordingly wrote down its investment, of which CP Limited's share was $101.0 million. In 1990 Laidlaw posted a $39.1 million non-recurring charge relating mainly to an unresolved permitting issue at a hazardous waste site in Cleveland, Ohio.

A Changing Industry

Laidlaw's performance in 1991 was also impacted by the recession and increased emphasis on waste minimization and recycling, which together reduced overall operating margins. A greater emphasis on recycling diverted waste from transfer and landfill operations, and the recession resulted in lower commercial and industrial waste volumes and brought on pricing pressures as non-residential users tried to reduce their operating costs.

Solid Waste Services

A significant erosion in profit margins in the solid waste division in 1991 resulted from recessionary conditions, increased competition and greater equipment handling and selling costs. In certain areas of the U.S. there has also been a significant decrease in volumes received for disposal at landfill sites.

Although the number was down from 1990, Laidlaw completed several acquisitions of solid waste transfer stations, landfills and hauling operations in 1991 in order to strengthen its existing regional coverage.

In 1991 Laidlaw Technologies Inc., whose mandate is to develop and market new waste management technologies, purchased the assets of the only integrated bio-medical waste management company in Canada. Included in the purchase was an incinerator complex with a destruction capacity of 14,000 tons per year, supported by a transportation fleet and transfer station, and local collection and transhipment points. Laidlaw Technologies also acquired five additional gas recovery projects in the United States to complement its existing waste-to-energy and landfill gas recovery operations.

Hazardous Waste Services

Lower margins in the hazardous waste sector stemmed from pricing pressures, postponement of special remedial projects by customers, and an increased proportion of lower margin businesses acquired as part of the acquisition of Tricil Limited in late 1989. During the year Laidlaw acquired a major hazardous waste transfer station and storage facility near Houston, Texas. This will provide increased service capability in a new market in Texas, one of the largest waste generating areas in the U.S., and will support present recycling and treatment operations in Louisiana.

Passenger Services

A moderate decline in profit margins in 1991 for the passenger services segment reflected higher fuel prices during the Persian Gulf conflict, losses on selling off excess fleet and cutbacks by school boards in extracurricular outings.

Laidlaw is the single largest provider of school transportation services in North America. Laidlaw is responsible for transporting approximately 1 million students daily, mostly in Eastern Canada and in the Northeast and Western U.S. A growth opportunity exists in the U.S. where student transportation is provided mainly by the public sector which is facing escalating budget constraints. A key opportunity exists for governments in the U.S. to contract for services rather than supply them.

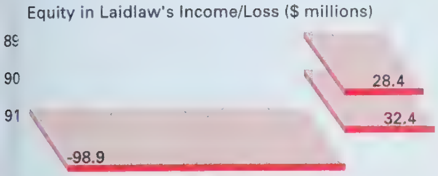
Outlook

Laidlaw will concentrate on reducing costs and strengthening management in 1992 and will continue to search for growth opportunities. Small improvement is forecast for most of Laidlaw's operations, except the solid waste business where the focus will be on restructuring, particularly in the U.S., in response to changing industry conditions. Also, price competition is expected to increase in the solid waste business, while operating costs are anticipated to rise because of demanding regulatory requirements.

Laidlaw expects operating margins to improve in the hazardous waste sector, as it benefits from better economic conditions, profitable acquisitions, and from price increases at transfer stations and treatment facilities. Operating margins in the passenger services sector should also be better because of price increases on contract renewals, cost reductions and better safety performance.

Laidlaw Inc.

Equity in Laidlaw's Income/Loss ($ millions)



Operating Profit Margin (%)

Revenues (%)

Laidlaw Environmental Services is the second largest hazardous waste management company in North America and operates the three largest liquid injection incinerators. This incinerator in Roebuck, South Carolina has an annual throughput capacity of 78 million pounds of industrial hazardous waste.

The following Management's Discussion and Analysis is supplemental to the consolidated financial statements contained in this report, and provides information on the historical performance of CP Limited, its financial condition and future trends and risks. For a more complete understanding of the Company's businesses, the Review of Operations section on pages 10 through 31 should be read.

Consolidated Operating Income and Net Income

($ millions)	1991	1990	1989
Transportation	$ (14.8)	$ 294.3	$ 263.4
Energy	184.5	424.0	297.6
Forest Products	(845.4)	14.9	377.1
Real Estate and Hotels	134.4	264.4	354.6
Telecommunications and Manufacturing	35.8	37.3	84.2
Operating Income	$(505.5)	$1,034.9	$1,376.9
Net Income	$(913.8)	$ 355.3	$ 745.2

Net Income

CP Limited incurred a loss of $913.8 million, or $2.87 per Ordinary share in 1991, compared with net income of $355.3 million, or $1.11 per Ordinary share, in 1990 and $745.2 million, or $2.35 per Ordinary share, in 1989. Per share figures are based on a weighted average number of Ordinary shares of 318.5 million in both 1991 and 1990 and 317.3 million in 1989. Results in 1989 included income from discontinued operations of $80.6 million, or $0.26 per share.

Unusual Items in 1991

Included in the loss for 1991 were unusual items which arose mainly from decisions to rationalize operations and reassess asset values in certain businesses. The most significant items were:

- A charge of $143.0 million after tax ($250.9 million at the operating income level) by CP Rail System for workforce reductions, mainly in the equipment maintenance and administrative areas.
- PanCanadian Petroleum's write-down of its investment in the OSLO oil sands project and the anticipated loss on the sale of its U.S. oil and gas assets, plus an accrual for workforce reductions. CP Limited's after tax share of these charges amounted to $82.0 million ($122.0 million at the operating income level).
- Write-downs incurred by CP Forest Products for the downsizing, sale or closure of various mills amounting to $293.3 million after tax at CP Limited's level ($528.3 million at the operating income level).
- Marathon Realty's write-down of $42.6 million after tax ($58.5 million at the operating income level) to reduce the carrying value of certain non-strategic assets.
- A $290.8 million write-down by CP Limited of its investment in Laidlaw Inc., and Laidlaw's write-down of its investment in ADT Limited of which CP Limited's share was $101.0 million.
- Net gains totalling $64.4 million after tax and minority interest on the sale of certain assets and businesses, principally the tissue business of CP Forest Products and the packaging equipment division of United Dominion.

Operating Performance (1989 to 1991)

In addition to the 1991 unusual items, CP Limited's operating results deteriorated since 1989, reflecting the recession which began in 1990. Since 1989, consolidated revenues fell at an average annual rate of 3%, while operating expenses, excluding unusual items, increased 1% on average each year. Among the sectors, Forest Products sustained the largest deterioration in results.

Transportation

Since 1989, revenues from Transportation increased 2%, on average, and amounted to $4,074.9 million in 1991. Operating income rose 12% in 1990 to $294.3 million, while there was a loss of $14.8 million in 1991. These fluctuations were mainly attributable to CP Rail System.

CP Rail System's operating income increased $79.7 million to $316.1 million in 1990, then dropped to $24.5 million in 1991, when results included the $250.9 million restructuring charge. Revenue growth averaged 3% per year since 1989, and revenues reached $3,339.8 million in 1991. Freight traffic volume as measured by revenue ton miles increased 7% in 1990 and another 5% in 1991, reflecting successful grain harvests in 1990 and 1991 as well as strong international demand which boosted grain volumes. The depressed economy affected shipments of most other

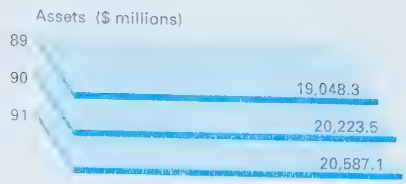
commodities, especially forest and automotive products in 1991, as well as container, intermodal and pool car traffic. Freight rates were depressed over the period, while operating costs continued to escalate.

For CP Ships there was a deterioration over the past three years – from operating earnings of $20.1 million in 1989 to a loss of $6.9 million in 1991, reflecting ongoing problems of overcapacity and intense rate pressures throughout the container shipping industry as well as recessionary conditions in North America in 1990 and 1991.

CP Trucks' results have also worsened since 1989. Following an operating profit of $6.9 million in 1989, there were operating losses of $23.5 million in 1990 and $32.4 million in 1991 which stemmed largely from lower freight volumes and rate pressures. Results in 1991 also included charges totalling $17.3 million covering workmen's compensation adjustments, restructuring costs and wind-up costs of discontinued businesses.

Energy

Revenues and operating profit in the Energy sector in 1990 were up 16% and 42% to $1,351.7 million and $424.0 million, respectively, compared with 1989. However, in 1991 revenues and operating income fell 5% and 56% to $1,279.6 million and $184.5 million, respectively. PanCanadian Petroleum was primarily responsible for these variations since 1989.



In 1990 PanCanadian's revenues and operating income were up 21% and 54% to $951.2 million and $354.2 million, respectively. However, in 1991 revenues fell 11% to $849.2 million, while operating income dropped $239.3 million of which $122.0 million was attributable to non-recurring charges. Crude oil revenues, which represent about two-thirds of PanCanadian's total revenues, rose $145.5 million, or 32%, in 1990, then fell $46.0 million, or 8%, in 1991 due to fluctuations in oil prices. The weighted average price of crude oil received by PanCanadian was $19.07 per barrel in 1989, $23.52 in 1990 because of the Persian Gulf crisis, and $20.71 in 1991. The decline in oil prices in 1991 was mitigated by PanCanadian's hedging program which began in the second half of 1990. Under the program, 12.2 million barrels of conventional crude oil were hedged in 1991 at an average price of U.S. $26.23, yielding incremental revenues of $65.6 million, compared with $2.3 million in 1990. Excluding the hedging program, the weighted average price of conventional crude oil received was $16.98 in 1991 and $22.48 in 1990. Conventional crude oil volumes increased 7% in 1990 and 5% in 1991 and, accordingly, operating costs rose in line with the greater production levels. Following a 2% decline in 1990, revenues from natural gas fell $19.2 million, or 10%, in 1991 reflecting lower selling prices.

Fording Coal maintained steady operating earnings of approximately $70 million over the three-year period, and revenue growth averaged 7%, despite lower coal selling prices. Coal sales volume increased 1% on average each year, but operating costs also rose.

Forest Products

Results of the Forest Products sector have declined steadily since 1989, with revenues falling 14% per year, on average, to $2,083.3 million in 1991 and operating income declining 96% in 1990 to $14.9 million, while in 1991 there was an operating loss of $845.4 million. Included in the 1991 operating loss were unusual charges of $528.3 million as previously mentioned. The pulp and paper industry has been suffering from a cyclical downturn which started in 1989 and continued throughout 1991. An imbalance in supply and demand was further worsened by new capacity which came on

stream in 1991 in almost all of CP Forest Products' business sectors. The corresponding severe decline in selling prices, especially for pulp and newsprint, as well as the unfavourable effect of the strong Canadian dollar in relation to the U.S. dollar and increased depreciation charges were the principal factors, aside from the special charges in 1991, leading to CP Forest Products' poor performance. Shipments of newsprint increased 12% in 1991 and followed a drop of 21% in 1990 when production was curtailed by labour disruptions at the company's facilities in the fall. Pulp shipments dropped 31% in 1990, also due in part to labour disruptions that year, then rose 7% in 1991.

Consolidated Revenues

($ millions)	1991	1990	1989
Transportation	$ 4,074.9	$ 4,028.7	$ 3,890.5
Energy	1,279.6	1,351.7	1,162.3
Forest Products	2,083.3	2,246.0	2,797.3
Real Estate and Hotels	878.7	927.5	984.3
Telecommunications and Manufacturing	1,981.6	2,094.9	2,185.4
Total (before inter-company eliminations)	$10,298.1	$10,648.8	$11,019.8
Total (after inter-company eliminations)	$10,070.4	$10,432.3	$10,810.0

Real Estate and Hotels

After peaking in 1989, revenues from this sector declined 6% per year on average to $878.7 million in 1991, and operating income was more than halved from $354.6 million in 1989 to $134.4 million in 1991.

Marathon Realty's revenues declined from $523.1 million in 1989 to $414.4 million in 1991, and operating income fell from $235.7 million to $88.8 million over the same period. Weak real estate markets affected operating income from land sales, which fell by more than $100 million in 1990 compared with 1989 when there were exceptionally large land sales. In 1991, operating income was affected by lower gains on sales of non-strategic assets, and results over the past three years included write-downs of non-strategic assets amounting to $58.5 million in 1991, $38.0 million in 1990 and $23.0 million in 1989.

Gains on the sale of surplus railway lands totalled $21.1 million in 1991, $86.9 million in 1990 and $65.0 million in 1989.

Since 1989, CP Hotels' revenues increased 6% per year on average to $443.2 million in 1991. Operating income rose 8% from 1989 to $58.2 million in 1990, then dropped to $24.5 million in 1991. 1990 results included an $8.4 million gain on the sale of an 80% interest in the Chateau Whistler Resort in British Columbia. In 1991 CP Hotels' operating performance was affected by lower occupancy levels, while costs continued to climb. A positive factor was the acquisition of the U.S.-based Doubletree Hotels Corporation late in 1990, which contributed $17.0 million in additional revenues and operating income of $5.3 million in 1991.

Telecommunications and Manufacturing

Revenues from this sector decreased gradually from $2,185.4 million in 1989 to $1,981.6 million in 1991, while operating income declined from $84.2 million to $35.8 million during the same period, primarily because of United Dominion.

At Unitel Communications revenues grew by an average 8% per year since 1989, reaching $435.2 million in 1991 because of the addition of new products and services. However, the improvement in 1990 was offset by cost escalation, resulting in an increase of $10.3 million in operating losses compared with 1989. Operating earnings of $13.2 million were recorded in 1991, reflecting not only continued revenue gains from new services but also expense curtailment achieved through a 20% reduction in the workforce and other cost restraint programs.

Since 1989, United Dominion's revenues declined a total of $268.6 million, or 15%, to $1,546.4 million in 1991 and operating income fell $63.0 million, or 74%, to $22.6 million. Most of United Dominion's key non-residential construction markets have been hurt by the recession and a major division was sold in 1989.

Net Interest Expense

CP Limited's net interest expense increased from $396.3 million in 1989 to $487.6 million in 1990 and to $540.0 million in 1991 as a result of increasing debt levels over the period. Due to the greater interest expense, coupled with lower earnings, the interest coverage ratio fell from 2.5 times in 1989 to 1.7 times in 1990. Due to the losses incurred in 1991, the interest coverage ratio is not applicable.

Other Income, Net

Other income totalled $122.8 million in 1991, $17.3 million in 1990 and $106.6 million in 1989 and included the following major components:

1991

- Gain of $86.4 million on the sale by CP Forest Products of its tissue business;
- Gain of $40.5 million on the sale by United Dominion of its packaging equipment division;
- Income of $55.3 million from the amortization of exchange gains;
- Expenses of $56.8 million covering corporate-related activities.

1990

- Income of $70.9 million from the amortization of foreign exchange gains;
- Credit of $12.5 million for the reversal of an expense provision made in 1989 on the expected sale of Soo Line's Chicago-Kansas City rail line, which was cancelled in 1990;
- Expenses of $50.4 million for corporate-related activities.

1989

- Gain of $81.6 million on the sale of a 40% interest in telecommunications operations;
- Income of $59.7 million from the amortization of foreign exchange gains;
- Gain of $29.6 million on the sale by United Dominion of its Giddings & Lewis unit;
- Provision for a loss of $26.4 million on the expected sale of Soo Line's Chicago-Kansas City rail line;
- Expenses of $40.6 million for corporate-related activities.

Long Term Debt as % of Debt and Equity

Waste Services

CP Limited's share of the loss posted by Laidlaw Inc., representing an 18.8% equity interest, amounted to $98.9 million in 1991, compared with income of $32.4 million in 1990 and $28.4 million in 1989. The 1991 loss was attributable to a write-down of Laidlaw's investment in ADT Limited because of adverse changes in ADT's non-core related investments and activities. CP Limited's share of the write-down was $101.0 million. Laidlaw's profit margins declined in both 1991 and 1990, reflecting the effects of the recession on prices and volumes as well as increased operating costs.

CP Limited's write-down of $290.8 million in its investment in Laidlaw was made to reflect a decline that management considers to be other than temporary.

Liquidity and Capital Resources

Due to CP Limited's large earnings shortfall in 1991, measures of financial condition, such as rates of return on average capital employed and shareholders' equity as well as the long term debt: equity ratio and cash flow as a percent of long term debt, all showed declines in 1991.

Cash from operations decreased over the 1989-1991 period and averaged $1.1 billion annually, while net investing activities averaged $1.6 billion per year. In order to improve liquidity and take advantage of favourable interest rates, the Company completed a long term financing program in 1991 which was primarily responsible for a net increase of $2.6 billion in long term debt. It also led to an improvement in cash levels from a deficit of $510.5 million at year-end 1990 to cash of $1,242.7 million at the end of 1991.

Reflecting higher long term debt levels, the long term debt:equity ratio moved from 33:67 at the end of 1989 to 35:65 at year-end 1990 and 49:51 at the end of 1991. In 1990 long term debt increases came principally from CP Forest Products, up $307.6 million, and Marathon Realty, up $263.6 million, mainly to fund their capital programs. In 1991 long term debt levels rose, attributable largely to net debt additions of $1,798.8 million for CP Limited/CP Enterprises/ CP Securities, $548.1 million for CP Forest Products and $429.1 million for Unitel. Debt financing in 1991 was primarily through unsecured debentures and drawdowns of existing credit facilities. Net proceeds were used to repay short term indebtedness, to finance capital expenditure programs and for general corporate purposes.

During 1991 United Dominion repurchased approximately two-thirds of its Series 2 preferred shares outstanding at a cost of approximately U.S. $95 million. CP Limited tendered its 52.6% holding of such shares.

Dividends

In order to conserve available financial resources and continue to make the investments necessary to ensure the future competitiveness of its businesses, Canadian Pacific reduced its quarterly dividend in 1991 from 23 cents per Ordinary share, established in the latter half of 1989, to 8 cents. Total dividends to shareholders amounted to $254.2 million in 1989, $292.9 million in 1990 and $249.1 million in 1991.

Investing Activities

Additions to investments and properties of $1,830.7 million in 1991 decreased $408.0 million from 1990.

CP Rail System's capital expenditures of $252.6 million were down $12.8 million from 1990, with ongoing renewals and improvements to property responsible for most of the expenditures over the two-year period. Again in 1991 PanCanadian expanded its exploration and development program in search of additional oil and gas reserves, and its capital expenditures amounted to $390.0 million, up $50.4 million over 1990. Spending levels at CP Forest Products declined $78.8 million to $349.8 million in 1991, and involved the completion of various construction projects including a new newsprint machine and two new de-inking plants, as well as ongoing modernization and environment-related programs.

Completion of construction projects also explains most of the $77.5 million reduction in Marathon Realty's spending, which totalled $318.7 million in 1991. CP Hotels' renovation and upgrading program, which is reaching completion, involved capital spending of $108.1 million in 1991, down $58.3 million from 1990. At Unitel Communications, capital expenditures declined $105.6 million to $150.8 million in 1991 as Unitel continued its program to improve and expand services.

Proceeds from the sale of assets over the past three years comprised mainly:

1991

- $184.8 million on the sale of CP Forest Products' tissue business;
- $156.3 million from the sale of real estate by CP Rail System and Marathon;
- $94.0 million on the sale of United Dominion's packaging equipment division and another smaller unit.

1990

- $197.9 million from the sale of real estate by CP Rail System and Marathon;
- $95.0 million on disposals by CP Hotels, of which $80 million pertained to the sale of an 80% interest in the Chateau Whistler.

1989

- $288.7 million on the sale of a 40% interest in telecommunications operations;
- $194.1 million on United Dominion's disposals, mainly its Giddings & Lewis unit;
- $183.6 million on the sale of real estate by CP Rail System and Marathon;
- $118.0 million on sale of most of the remaining bulk shipping fleet.

Capital Expenditures and Cash from Operations ($ millions)

Commitments, Future Trends and Risks

Consolidated capital spending in 1992 is expected to total approximately $1.7 billion and will be directed towards the completion of projects and programs to maintain productive capacity. Of this amount, $499.5 million had been committed by the end of 1991, of which $321.0 million is in respect of Marathon Realty and $58.5 million is for CP Forest Products. The commitments are primarily for these companies' ongoing projects. Commitments as of December 31, 1991 for capital expenditures beyond 1992 total $138.8 million and are solely related to Marathon's development projects.

In financing expected capital expenditures, debt repayments and ongoing operations in 1992, the Company's cash requirements will be satisfied by internally generated funds, which should improve in line with some pick-up in earnings, proceeds from property sales and cash on hand. Net external financing will, consequently, be below 1991 levels. However, depending on interest rate levels the Company may refinance existing facilities. Available to CP Limited and its subsidiaries are unused lines of credit for short term financing of $1,140.4 million at year-end 1991, while unused commitments for long term financing are $1,296.3 million.

Included in unused lines of credit for short term financing are $639.4 million for the Parent Company, $171.4 million for CP Forest Products and $170.8 million for United Dominion.

Unused commitments for long term financing consist mostly of $623.9 million for PanCanadian, $276.8 million for CP Forest Products and $253.5 million for United Dominion. Most borrowings would be at interest rates related to the London Interbank Offered Rate.

In February 1992 CP Forest Products issued 8.5 million common shares, of which CP Limited acquired 1.7 million shares at a cost of $45 million, consequently lowering its ownership of CP Forest Products from 79.7% to 70.0%. CP Forest Products will use the net proceeds of $218.1 million from this issue to reduce debt.

Also in February 1992 Laidlaw issued 22.8 million Class B non-voting shares, of which CP Limited purchased 4.6 million shares for $50 million. This raised CP Limited's interest in Laidlaw's total common equity from 18.8% to 18.9%. Laidlaw will use the net proceeds of $242.2 million from its issue to reduce indebtedness.

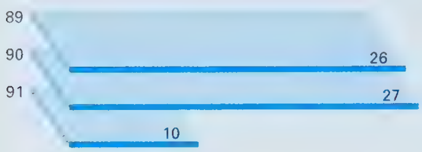
Overall, the major risk to the 1992 outlook for CP Limited stems from the possibility that the expected economic improvement is even slower than currently forecast, consequently hindering the recovery of the Company's earnings.

As for CP Limited's various businesses, better results at CP Rail System are foreseen due to moderately higher traffic levels in line with a slowly improving economy. Although the benefits of the 1991 crude oil hedging program will not be repeated in 1992, PanCanadian expects higher production volumes of oil and gas and the price advantage of a crude oil mix geared to lighter grades. At CP Forest Products operating expenses should be lower as the result of mill closures and downsizings, although poor markets for pulp and newsprint are expected to continue. In view of low margins in its divisions, CP Forest Products will continue to be highly sensitive to product price movements as well as the value of the Canadian dollar. Marathon Realty's performance will continue to be heavily dependent on the level of non-strategic property sales, since rental income is unlikely to show much improvement in the short term.

The Company's earnings are sensitive in varying degrees to changes in the foreign exchange value of the Canadian dollar, interest rates and prices of certain resource commodities. Following is a table indicating the estimated annual effect, under current condtions, of these sensitivities.

Sensitivity of CP Limited's Net Income	($ millions)
U.S. 1 cent decrease in the value of the Canadian dollar	$15.1
One percentage point change in Canadian and U.S. prime interest rates	4.0
U.S. $1.00 per barrel increase in the price of West Texas Intermediate crude oil	
• PanCanadian	17.4
• CPL's other businesses	(7.1)
10 cent per Mcf change in the price of natural gas	8.6
U.S. $5.00 per tonne change in newsprint prices	3.2
U.S. $5.00 per tonne change in pulp prices	1.7
U.S. $1.00 per tonne change in coal price – Fording Coal	3.1

Cash From Operations as a % of Long Term Debt



Labour Relations

The only major businesses facing labour negotiations in 1992 are CP Rail System and CP Forest Products. It is not possible to assess the outcome of these negotiations at this time.

Three-year labour agreements with CP Rail's 13 unions expired December 31, 1991; negotiations are in progress with key issues being improved productivity and competitiveness. As for Soo Line in the U.S., settlements were reached with 12 unions representing two-thirds of unionized employees, with negotiations continuing in respect of the five remaining unions. An agreement reached with CP Forest Products' pulp and paper employees in British Columbia in 1991 provides for an extension of the existing contract to April 30, 1992. As for pulp and paper employees in Eastern Canada, three-year collective agreements covering primary and woodlands operations do not expire until 1993.

The Effects of Changing Price Levels

The largest single contributor to the annual rate of consumer price inflation in Canada in 1991 was the Goods and Services Tax (GST), a value-added tax introduced on January 1, 1991 to replace the federal manufacturers' sales tax. The GST negatively affected the Company's Real Estate and Hotels sector by reducing retail sales in Marathon's Canadian shopping centres and decreasing occupancy levels at CP Hotels' Canadian locations. However, the GST had a limited effect on the Company as savings were realized from the elimination of the federal sales tax, particularly on capital equipment purchases, and because the Company operates in few retail sectors.

The weak state of the economy and excess supply in many industries contributed to a weakening in the prices of resource commodities during the year. Oil prices, especially for heavier crudes, and natural gas prices fell in 1991 compared with 1990. Market prices for pulp, newsprint and other papers also weakened. Over the past few years, the deregulation of rail and truck transportation and strong competition in liner shipping have put downward pressure on freight rates, which was intensified by the recession last year. With input costs continuing to rise, operating margins have been squeezed.

Environmental Protection

CP Limited and its businesses are committed to environmental protection in all facets of operations and are undertaking the necessary capital expenditures to ensure compliance with regulatory requirements.

CP Forest Products incurred capital expenditures of $52.1 million in 1991 on projects to meet proposed federal and provincial pulp and paper regulations. Over the next four years, an estimated $190 million is expected to be required, of which approximately $50 million relates to projects in progress at the end of 1991.

As for CP Limited's other businesses, no significant capital expenditures relating to environmental control on existing or new facilities are expected in the foreseeable future.

Financial Statements

Statement of Consolidated Income

For the Year ended December 31	1991	1990	1989
	(in millions, except amounts per share)		
Revenues			
Goods sold	$ 4,902.0	$ 5,268.3	$ 5,770.1
Services	5,168.4	5,164.0	5,039.9
	10,070.4	10,432.3	10,810.0
Costs and Expenses			
Cost of goods sold	3,778.5	3,655.6	3,877.9
Cost of services	3,597.9	3,473.0	3,395.4
Selling, general and administrative	1,763.7	1,473.6	1,413.9
Depreciation, depletion and amortization	1,435.8	795.2	745.9
	10,575.9	9,397.4	9,433.1
Operating income (Note 2)	(505.5)	1,034.9	1,376.9
Interest expense, net (Note 3)	(540.0)	(487.6)	(396.3)
Other income, net (Note 4)	122.8	17.3	106.6
Income before income taxes, minority interest and equity in income	(922.7)	564.6	1,087.2
Income taxes (Note 5)	(263.5)	220.4	351.5
Minority interest	(135.1)	21.3	99.5
Equity in (income) loss of Laidlaw Inc.	98.9	(32.4)	(28.4)
Write-down of investment in Laidlaw Inc. (Note 10)	290.8	—	—
Income from continuing operations	(913.8)	355.3	664.6
Discontinued operations (Note 6)	—	—	80.6
Net Income	$ (913.8)	$ 355.3	$ 745.2
Earnings per Ordinary Share			
Income from continuing operations	$ (2.87)	$ 1.11	$ 2.09
Net Income	$ (2.87)	$ 1.11	$ 2.35

Statement of Consolidated Retained Income

For the Year ended December 31	1991	1990	1989
		(in millions)	
Balance, January 1	$ 5,178.0	$ 5,116.2	$ 4,638.2
Net income	(913.8)	355.3	745.2
	4,264.2	5,471.5	5,383.4
Dividends			
4% Preference Shares	0.5	0.5	0.5
Ordinary Shares (per share: 1991 – $0.63; 1990 – $0.92; 1989 – $0.84)	200.6	293.0	266.7
Total dividends	201.1	293.5	267.2
Balance, December 31	$ 4,063.1	$ 5,178.0	$ 5,116.2

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1991	1990	1989
		(in millions)	
Operating Activities			
Income from continuing operations	$ (913.8)	$ 355.3	$ 664.6
Depreciation, depletion and amortization	906.6	795.2	745.9
Deferred income taxes	(276.6)	169.7	224.7
Minority interest	(135.1)	21.3	99.5
Gains from sales of businesses, investments and properties	(160.3)	(93.9)	(169.0)
Amortization of exchange gains	(55.3)	(70.9)	(59.7)
Write-down of assets and restructuring costs	1,270.0	61.9	49.0
Equity in losses (income) of associates (Note 10)	152.3	38.5	(25.3)
Other operating cash items, net	(35.7)	(17.7)	(87.9)
Cash from continuing operations, before changes in working capital	752.1	1,259.4	1,441.8
Decrease (increase) in non-cash working capital balances relating to continuing operations (Note 7)	(3.0)	24.6	(302.3)
Cash from continuing operations	749.1	1,284.0	1,139.5
Cash from discontinued operations	—	—	(1.0)
Total cash from operations	749.1	1,284.0	1,138.5
Dividends			
Paid to shareholders of the Corporation	(249.1)	(292.9)	(254.2)
Paid to minority shareholders of subsidiaries	(26.0)	(41.9)	(68.7)
	(275.1)	(334.8)	(322.9)
Financing Activities			
Issuance of long term debt	3,718.7	1,372.7	938.2
Repayment of long term debt	(1,064.6)	(1,074.1)	(573.9)
Issuance of shares by subsidiaries	6.8	2.0	—
Redemption of Preferred Shares by subsidiaries	(23.7)	(62.5)	(56.6)
Issuance of Ordinary Shares by the Corporation	8.9	13.3	32.6
Repurchase of Ordinary Shares by the Corporation	—	(10.3)	—
	2,646.1	241.1	340.3
Investing Activities			
Business acquisitions and investments (Note 8)	(139.9)	(284.8)	(679.6)
Additions to properties	(1,690.8)	(1,953.9)	(1,640.8)
Sales of businesses, investments and properties	463.8	373.7	886.8
	(1,366.9)	(1,865.0)	(1,433.6)
Cash Position*			
Increase (decrease) in cash	1,753.2	(674.7)	(277.7)
Cash (deficit) at beginning of year	(510.5)	164.2	441.9
Cash (deficit) at end of year	$ 1,242.7	$ (510.5)	$ 164.2

*Cash comprises cash and temporary investments net of bank loans and notes payable.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet (December 31)

Assets		1991		1990
		(in millions)		
Current Assets				
Cash and temporary investments	$	**1,603.0**	$	849.0
Accounts receivable		**1,559.2**		1,586.7
Inventories (Note 9)		**925.9**		1,046.2
		4,088.1		3,481.9
Investments (Note 10)		**924.1**		1,267.0
Properties, at cost (Note 11)				
Transportation		**7,770.2**		7,603.9
Energy		**5,727.9**		5,413.4
Forest Products		**4,088.4**		3,955.0
Real Estate and Hotels		**3,899.8**		3,619.1
Telecommunications and Manufacturing		**1,591.7**		1,591.8
Other		**53.0**		48.5
		23,131.0		22,231.7
Less: Accumulated depreciation, depletion and amortization		**8,323.9**		7,417.7
		14,807.1		14,814.0
Other Assets and Deferred Charges (Note 12)		**767.8**		660.6
	$	**20,587.1**	$	20,223.5

Auditors' Report

To the Shareholders of Canadian Pacific Limited:
We have audited the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1991 and 1990 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1991. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Limited as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1991 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse.

Chartered Accountants
Montreal, Quebec,
March 6, 1992.

Liabilities and Shareholders' Equity	1991	1990
	(in millions)	
Current Liabilities		
Bank loans	$ 360.3	$ 353.9
Notes payable	—	1,005.6
Accounts payable and accrued liabilities	2,009.8	1,856.8
Income and other taxes payable	69.1	116.0
Dividends payable	29.5	77.5
Long term debt maturing within one year (Note 13)	405.5	138.4
	2,874.2	3,548.2
Deferred Liabilities	502.0	292.4
Long Term Debt (Note 13)	6,809.8	4,426.0
Perpetual 4% Consolidated Debenture Stock (Note 14)	176.4	180.1
Deferred Income Taxes	2,203.3	2,485.0
Deferred Income Credits (Note 15)	440.5	421.1
Minority Shareholders' Interest in Subsidiary Companies (Note 16)	867.0	1,043.3
Shareholders' Equity (Note 17)		
Preference Shares	14.9	14.9
Ordinary Shares		
Issued – 318,677,431 (1990 – 318,224,822) shares	1,234.9	1,226.0
Premium on securities	1,174.5	1,174.5
Other paid-in surplus	154.1	154.1
Foreign currency translation adjustments	72.4	79.9
Retained income	4,063.1	5,178.0
	6,713.9	7,827.4
Commitments (Note 21)		
	$ 20,587.1	$ 20,223.5

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

J.F. Hankinson

J.F. Hankinson, Director

W.W. Stinson

W.W. Stinson, Director

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("CP Limited"). All significant inter-company transactions and balances have been eliminated.

The principal companies and divisions included in each business segment are as follows:

December 31	1991	1990	1989
	Percentage Ownership		
Transportation			
CP Rail System			
CP Rail – a division of the Corporation			
Soo Line Corporation (Note 8)	**100.0%**	100.0%	55.8%
Delaware and Hudson Railway Company, Inc.	**100.0**	—	—
CP Ships			
Canada Maritime Limited	**57.0**	57.0	57.0
Racine Terminal (Montreal) Limited	**100.0**	100.0	100.0
CP Trucks			
Canadian Pacific Express & Transport Ltd.	**100.0**	100.0	100.0
Energy			
PanCanadian Petroleum Limited	**87.1**	87.1	87.1
Fording Coal			
Fording Coal Holdings Inc.	**100.0**	100.0	100.0
NYCO Minerals, Inc.	**100.0**	100.0	100.0
Forest Products			
Canadian Pacific Forest Products Limited	**79.7**	79.7	79.7
Real Estate and Hotels			
Marathon Realty Holdings Inc.	**100.0**	100.0	100.0
CP Rail System (see above)			
Canadian Pacific Hotels & Resorts Inc.	**100.0**	100.0	100.0
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	**60.0**	60.0	60.0
United Dominion Industries Limited	**55.4**	55.4	55.4

The Corporation accounts for its investment in its associated company, Laidlaw Inc., on the equity method. Under this method, the Corporation's share of income from Laidlaw Inc., less the amortization of the excess of the purchase price over net assets acquired, is included in net income.

Except for Canadian Pacific Forest Products Limited, which accounts for investments in joint ventures on the equity method, investments by other subsidiary companies in joint ventures are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to CP Limited, are described under Supplementary Data (see page 64).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Revenue Recognition

Transportation: Railway freight revenues are recognized upon the completion of movements.

Revenues from shipping operations, costs directly attributable to loaded moves and vessel costs are accounted for on the basis of voyages completed in the period.

Revenues from trucking operations are recognized when the goods to be delivered are picked up.

Energy: Revenues from oil and gas operations are recognized at the time the oil is sold or natural gas is delivered. Payments are received for natural gas to be delivered at future dates pursuant to certain contracts. These payments are included under Deferred Income Credits and are taken into income as the natural gas is delivered.

Coal sales revenues are recognized when the coal has been loaded and has departed the shipping location.

Forest Products: Revenues are recognized at the later of the bill of lading date and the release date to the customer, which usually coincides with the date the goods are accepted by the purchaser or common carrier.

Real Estate and Hotels: Revenues from income producing properties are generally recognized upon the earlier of attaining an occupancy level of 80% or the expiration of a one-year period following substantial completion. Prior to such time, rental revenues and operating costs are capitalized as part of the cost of the project.

Income from sales of properties is fully recognized at the time of sale, provided that estimated future cash flows from the properties are adequate to service any vendor financing. This policy was adopted in 1990, the previous policy being to recognize income in proportion to proceeds realized. This change in policy, which has been applied prospectively, has not had a significant impact on CP Limited's net income for the years reported.

1. Significant Accounting Policies (cont'd)

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Telecommunications and Manufacturing: Revenues from telecommunications activities are recognized when the services are provided. Income on construction contracts is recognized on the percentage-of-completion basis.

Earnings per Ordinary Share

Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Post Retirement Benefits

For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits at January 1, 1987 (the date the present accounting policy was adopted by CP Limited) is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

For post retirement health care and life insurance benefits, costs are based on the annual insurance premium paid to provide these benefits.

Inventories

Rail materials and supplies are valued at the lower of average cost and replacement value.

Raw materials and supplies are valued at the lower of average cost and replacement cost.

Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts.

Finished goods are valued at the lower of average cost and net realizable value.

Properties

Transportation: Accounting for railway properties is carried out in accordance with the Uniform Classification of Accounts issued by the National Transportation Agency of Canada and in accordance with Interstate Commerce Commission rules in the United States. Fixed asset additions and major renewals are recorded at cost. Maintenance and repairs are charged to expense as incurred with the exception of material costs of programmed track replacement which are capitalized. When depreciable property is retired or otherwise disposed of, the book value, less salvage, is charged to accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property, except for rail and other track material in the United States which is based on usage. For railway properties, the rates used by CP Rail are as authorized by the National Transportation Agency of Canada, and by the Interstate Commerce Commission for Delaware and Hudson Railway Company, Inc. and the railway subsidiary of Soo Line Corporation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Road diesel locomotives	27 to 40
Freight cars	17 to 51
Ties	28 to 60
Rails – in first position	21 to 29
– in other than first position	45 to 60
Ships	20
Trucks and trailers	7 to 12

1. Significant Accounting Policies (cont'd)

Energy: CP Limited follows the full cost method of accounting for oil and gas properties, whereby all costs relating to the exploration for and the development of conventional oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserve volumes of natural gas converted to equivalent energy units of crude oil.

In determining depletion and depreciation provisions for conventional oil and natural gas assets, CP Limited includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the total unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations utilize CP Limited's weighted average product prices prevailing at year end.

Depreciation of conventional oil and natural gas plant, production and other equipment is provided for on the unit of production method.

Natural gas liquids extraction and Syncrude oil sands facilities are depreciated on a straight-line basis over the estimated service lives of the assets.

Expenditures by CP Limited to acquire, explore for and develop identified coal properties are capitalized, net of costs relating to raw coal production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties are charged against income as incurred.

Abandoned coal properties are charged against income in the year of abandonment.

Depletion on operating mines is provided using a unit of production method based on the proven mineral reserve position.

Interest on funds borrowed to finance major energy projects is capitalized during the construction period.

Commencing in 1991 estimated future dismantlement and site restoration costs of conventional crude oil, natural gas and Syncrude oil sands assets are provided for using the unit of production method. With regard to natural gas liquids extraction facilities, these costs are provided for over the estimated service lives of the assets. CP Limited provides for the eventual reclamation of mined properties based on current production. This accounting policy, adopted on a prospective basis, does not have a significant impact on CP Limited's net income.

Forest Products: Plants and properties are stated at cost. Pulp and paper mills are depreciated on a unit of production basis over their estimated economic lives. Other plants are depreciated on a straight-line basis over their estimated economic lives.

Interest on debt incurred to finance major expansion programs is capitalized during the construction period.

Real Estate and Hotels: Real estate and hotel properties are stated at cost, except for properties held for sale which are stated at the lower of cost and estimated net realizable value. Cost includes carrying costs, principally real estate taxes, interest, directly attributable salaries and expenses of development personnel and, for income properties, initial leasing costs.

Interest on funds used to finance new hotel facilities and major hotel renovations is capitalized during the construction period.

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Telecommunications and Manufacturing: Property, plant and equipment are recorded at cost which, in the case of new manufacturing facilities, includes interest during construction. Maintenance and repairs are expensed as incurred.

Depreciation of plant and equipment is provided principally on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Rates for telecommunications equipment are approved by the Canadian Radio-television and Telecommunications Commission.

2. Segmented Information

Business Segments

CP Limited carries on its operating activities through the following classes of business: Transportation, Energy, Forest Products, Real Estate and Hotels, and Telecommunications and Manufacturing. The business segments are based upon the major activities of significant subsidiaries and divisions of CP Limited.

The results of CP Rail System and Unitel Communications Holdings Inc. (Unitel), prior to the sale of a 40% interest in the latter on September 22, 1989, reflect interest, corporate overhead and income tax allocations made by the Corporation. The results of all other entities, including Unitel from September 22, 1989, are based upon their reported net incomes adjusted, where applicable, for acquisition-related costs. Interest charges allocated to CP Rail System and Unitel are based principally on cash flow, corporate overhead on the basis of cost of operations, and income taxes on the basis of each division's accounting income as adjusted for non-taxable items.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length rates, are eliminated in reporting revenues and expenses by business segment. Services provided by entities in the Transportation segment to other entities in this segment yielded revenues in 1991 of $65.1 million (1990 – $60.3 million; 1989 – $57.6 million).

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment but are eliminated in reporting total consolidated revenues and expenses. Consolidated net income is not affected by this practice. Services provided by the Corporation's Transportation segment to other business segments yielded revenues in 1991 of $179.3 million (1990 – $167.4 million; 1989 – $170.9 million). Other charges between business segments amounted to $48.4 million in 1991 (1990 – $49.1 million; 1989 – $38.9 million).

		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization	Operating Income
				(in millions)		
Transportation						
CP Rail System	**1991**	**$ 3,339.8**	**$ 2,227.4**	**$ 894.7**	**$ 193.2**	**$ 24.5**
	1990	3,247.6	2,130.3	611.0	190.2	316.1
	1989	3,136.7	2,091.8	620.8	187.7	236.4
CP Ships	**1991**	**319.8**	**248.5**	**68.1**	**10.1**	**(6.9)**
	1990	322.5	237.3	74.6	8.9	1.7
	1989	278.9	193.9	55.5	9.4	20.1
CP Trucks	**1991**	**480.4**	**440.6**	**52.6**	**19.6**	**(32.4)**
	1990	518.9	459.4	63.9	19.1	(23.5)
	1989	532.5	457.2	48.4	20.0	6.9
Total (after elimination of intra-segment charges)	**1991**	**$ 4,074.9**	**$ 2,851.4**	**$ 1,015.4**	**$ 222.9**	**$ (14.8)**
	1990	4,028.7	2,766.7	749.5	218.2	294.3
	1989	3,890.5	2,685.3	724.7	217.1	263.4

2. Segmented Information (cont'd)

		Revenues	Cost of Goods and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization	Operating Income
				(in millions)		
Energy						
PanCanadian Petroleum Limited	**1991**	**$ 849.2**	**$ 287.1**	**$ 84.2**	**$ 363.0**	**$ 114.9**
	1990	951.2	299.7	50.5	246.8	354.2
	1989	785.6	282.1	41.0	232.2	230.3
Fording Coal	**1991**	**430.4**	**168.2**	**168.0**	**24.6**	**69.6**
	1990	400.5	150.8	158.1	21.8	69.8
	1989	376.7	146.9	144.1	18.4	67.3
Total	**1991**	**$ 1,279.6**	**$ 455.3**	**$ 252.2**	**$ 387.6**	**$ 184.5**
	1990	1,351.7	450.5	208.6	268.6	424.0
	1989	1,162.3	429.0	185.1	250.6	297.6
Forest Products						
Canadian Pacific Forest Products Limited	**1991**	**$ 2,083.3**	**$ 2,210.7**	**$ 86.4**	**$ 631.6**	**$ (845.4)**
	1990	2,246.0	1,993.1	97.0	141.0	14.9
	1989	2,797.3	2,181.9	97.9	140.4	377.1
Real Estate and Hotels						
Marathon Realty Holdings Inc.	**1991**	**$ 414.4**	**$ 259.1**	**$ 16.4**	**$ 50.1**	**$ 88.8**
	1990	423.8	240.6	16.1	47.8	119.3
	1989	523.1	232.8	11.4	43.2	235.7
CP Rail System	**1991**	**21.1**	—	—	—	**21.1**
	1990	86.9	—	—	—	86.9
	1989	65.0	—	—	—	65.0
Canadian Pacific Hotels & Resorts Inc.	**1991**	**443.2**	**292.3**	**89.4**	**37.0**	**24.5**
	1990	416.8	263.1	68.4	27.1	58.2
	1989	396.2	257.4	62.2	22.7	53.9
Total	**1991**	**$ 878.7**	**$ 551.4**	**$ 105.8**	**$ 87.1**	**$ 134.4**
	1990	927.5	503.7	84.5	74.9	264.4
	1989	984.3	490.2	73.6	65.9	354.6
Telecommunications and Manufacturing						
Unitel Communications Holdings Inc.	**1991**	**$ 435.2**	**$ 236.5**	**$ 103.8**	**$ 81.7**	**$ 13.2**
	1990	418.3	241.5	122.5	66.0	(11.7)
	1989	370.4	220.9	100.9	50.0	(1.4)
United Dominion Industries Limited	**1991**	**1,546.4**	**1,298.8**	**200.1**	**24.9**	**22.6**
	1990	1,676.6	1,389.6	211.5	26.5	49.0
	1989	1,815.0	1,475.8	231.7	21.9	85.6
Total	**1991**	**$ 1,981.6**	**$ 1,535.3**	**$ 303.9**	**$ 106.6**	**$ 35.8**
	1990	2,094.9	1,631.1	334.0	92.5	37.3
	1989	2,185.4	1,696.7	332.6	71.9	84.2
Consolidated Total (after elimination of inter-segment charges)	**1991**	**$ 10,070.4**	**$ 7,376.4**	**$ 1,763.7**	**$ 1,435.8**	**$ (505.5)**
	1990	10,432.3	7,128.6	1,473.6	795.2	1,034.9
	1989	10,810.0	7,273.3	1,413.9	745.9	1,376.9

2. Segmented Information (cont'd)

The 1991 operating loss of $505.5 million is after the following significant write-downs and restructuring costs:

- A $250.9 million provision, included in selling, general and administrative expenses of CP Rail System, for Angus Shops closure and other restructuring charges.
- A $100.0 million write-down, included in depreciation, depletion and amortization expenses of PanCanadian Petroleum Limited, of United States assets and investment in OSLO project.
- A $22.0 million provision, included in selling, general and administrative expenses of PanCanadian Petroleum Limited, for organizational effectiveness program.
- A $528.3 million provision, of which $429.2 million is included in depreciation, depletion and amortization expenses and $99.1 million is included in cost of goods of Canadian Pacific Forest Products Limited, for shutdown of the Trois-Rivières mill, downsizing of the Dalhousie mill and write-down of the paperboard and packaging business.

Identifiable Assets	1991	1990	1989
		(in millions)	
Transportation			
CP Rail System	$ 5,802.2	$ 5,573.0	$ 5,481.0
CP Ships	128.3	129.5	144.8
CP Trucks	181.5	213.5	252.3
	6,112.0	5,916.0	5,878.1
Energy			
PanCanadian Petroleum Limited	3,099.2	3,072.8	2,924.4
Fording Coal	450.0	393.3	381.9
	3,549.2	3,466.1	3,306.3
Forest Products			
Canadian Pacific Forest Products Limited	3,089.9	3,388.2	3,203.1
Real Estate and Hotels			
Marathon Realty Holdings Inc.	2,901.5	2,720.6	2,324.1
Canadian Pacific Hotels & Resorts Inc.	1,010.6	923.5	929.1
	3,912.1	3,644.1	3,253.2
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	974.3	866.6	668.9
United Dominion Industries Limited	941.7	1,100.0	1,104.2
	1,916.0	1,966.6	1,773.1
Other	4,377.3	3,555.8	3,081.0
Inter-company eliminations	(2,369.4)	(1,713.3)	(1,446.5)
	$ 20,587.1	$ 20,223.5	$ 19,048.3

Notes to Consolidated Financial Statements

2. Segmented Information (cont'd)

Additions to Properties	1991	1990 (in millions)	1989
Transportation			
CP Rail System	$ 252.6	$ 265.4	$ 261.6
CP Ships	21.8	13.5	5.2
CP Trucks	4.9	12.9	30.0
	279.3	291.8	296.8
Energy			
PanCanadian Petroleum Limited	390.0	339.6	302.6
Fording Coal	67.3	39.8	38.1
	457.3	379.4	340.7
Forest Products			
Canadian Pacific Forest Products Limited	349.8	428.6	409.8
Real Estate and Hotels			
Marathon Realty Holdings Inc.	318.7	396.2	251.5
Canadian Pacific Hotels & Resorts Inc.	108.1	166.4	155.1
	426.8	562.6	406.6
Telecommunications and Manufacturing			
Unitel Communications Holdings Inc.	150.8	256.4	164.1
United Dominion Industries Limited	17.9	31.6	19.6
	168.7	288.0	183.7
Other	8.9	3.5	3.2
	$ 1,690.8	$ 1,953.9	$ 1,640.8

Geographic Segments	1991	1990 (in millions)	1989
Canada			
Revenues			
Domestic	$ 5,310.0	$ 5,620.1	$ 5,484.4
Export	2,417.6	2,450.7	2,927.0
Inter-company revenues	(292.8)	(276.8)	(267.4)
	$ 7,434.8	$ 7,794.0	$ 8,144.0
Operating income	$ (422.4)	$ 926.7	$ 1,231.3
Identifiable assets	$ 17,704.6	$ 16,968.7	$ 15,660.6
United States			
Revenues	$ 2,005.4	$ 1,960.1	$ 2,061.7
Operating income	$ (86.1)	$ 86.5	$ 96.5
Identifiable assets	$ 3,679.6	$ 3,025.2	$ 2,988.6
Other Countries			
Revenues	$ 630.2	$ 678.2	$ 604.3
Operating income	$ 3.0	$ 21.7	$ 49.1
Identifiable assets	$ 928.9	$ 888.6	$ 793.1
Summary			
Revenues	$ 10,070.4	$ 10,432.3	$ 10,810.0
Operating income	$ (505.5)	$ 1,034.9	$ 1,376.9
Identifiable assets	$ 22,313.1	$ 20,882.5	$ 19,442.3
Investment in Laidlaw Inc.	643.4	1,054.3	1,052.5
Inter-company eliminations	(2,369.4)	(1,713.3)	(1,446.5)
	$ 20,587.1	$ 20,223.5	$ 19,048.3

Notes to Consolidated Financial Statements

3. Interest Expense, Net

	1991	1990	1989
		(in millions)	
Long term debt and debenture stock	$ 658.5	$ 547.0	$ 523.4
Short term debt	81.7	143.6	78.1
	740.2	690.6	601.5
Less: Interest income	116.1	104.5	114.1
Interest capitalized on funds borrowed to finance capital projects	84.1	98.5	91.1
	$ 540.0	$ 487.6	$ 396.3

4. Other Income, Net

	1991	1990	1989
		(in millions)	
Gain on sale of businesses			
Canadian Pacific Forest Products Limited			
Tissue business	$ 86.4	$ —	$ —
United Dominion Industries Limited			
Packaging Equipment division	40.5	—	—
Giddings and Lewis	—	—	29.6
Gain from the sale by the Corporation of a 40% interest in Unitel Communications Holdings Inc.	—	—	81.6
Provision for loss in 1989 on sale of the Kansas City line by Soo Line Corporation partially reversed as a result of cancellation of the sale in 1990	—	12.5	(26.4)
Amortization of exchange gains	55.3	70.9	59.7
Corporate expenses	(56.8)	(50.4)	(40.6)
Other	(2.6)	(15.7)	2.7
	$ 122.8	$ 17.3	$ 106.6

5. Income Taxes

	1991	1990	1989
		(in millions)	
Canadian			
Current	$ 0.9	$ 42.9	$ 107.7
Deferred	(260.3)	167.9	246.1
	$ (259.4)	$ 210.8	$ 353.8
Foreign			
Current	$ 12.2	$ 7.8	$ 19.1
Deferred	(16.3)	1.8	(21.4)
	$ (4.1)	$ 9.6	$ (2.3)
Total			
Current	$ 13.1	$ 50.7	$ 126.8
Deferred	(276.6)	169.7	224.7
	$ (263.5)	$ 220.4	$ 351.5

The deferred income tax provision on income from continuing operations arose from the following:

	1991	1990	1989
Excess of tax over book depreciation	$ (3.8)	$ 66.3	$ 171.5
Exploration and development allowances	26.0	38.9	29.4
Losses tax affected	(95.0)	34.0	(51.1)
Write-down of assets and restructuring costs	(230.7)	(12.3)	(19.2)
Other	26.9	42.8	94.1
	$ (276.6)	$ 169.7	$ 224.7

The difference between the provision for income taxes and the provision obtained by applying the statutory tax rate is as follows:

	1991	1990	1989
Income tax at the statutory rate	$ (390.4)	$ 243.2	$ 450.0
Depletion and resource allowances	(39.4)	(63.0)	(41.6)
Foreign tax differentials	(7.2)	(11.7)	(5.6)
Royalties and mineral reserve tax	22.1	27.9	19.0
Manufacturing and processing credits	32.9	—	(7.9)
Loss carry forwards recognized	(17.6)	(20.6)	(32.1)
Losses not tax affected	43.1	29.6	5.4
Capital gains rate differential	(7.5)	(23.2)	(50.6)
Large corporations tax	24.2	21.3	8.3
Effect of non-deductible portion of asset write-downs and restructuring costs	73.3	—	—
Other	3.0	16.9	6.6
Provision for income taxes on income from continuing operations	$ (263.5)	$ 220.4	$ 351.5

6. Discontinued Operations

No operations were discontinued in 1991 or 1990.

On May 23, 1989, the Corporation's wholly-owned subsidiary, Canadian Pacific (Bermuda) Limited, entered into an agreement to dispose of substantially all of its remaining Bulk Shipping division's fleet for cash proceeds of $118 million. The sale was accounted for as of September 30, 1989 when delivery of all of the vessels to the purchaser had taken place.

On June 12, 1989, the Corporation decided to sell its wholly-owned subsidiary, Syracuse China Corporation (Syracuse China). The sale was completed on December 15, 1989 for cash proceeds of $58.3 million.

The 1989 results of discontinued operations are summarized below:

	Syracuse China	Bulk Shipping	Total
		(in millions)	
Revenues	$ 38.7	$ 42.2	$ 80.9
Income from operations	2.0	4.4	6.4
Income taxes	0.8	—	0.8
	1.2	4.4	5.6
Gain from sale	11.6	69.3	80.9
Income taxes	5.9	—	5.9
	5.7	69.3	75.0
	$ 6.9	$ 73.7	$ 80.6

The results of discontinued operations are after deductions for depreciation expense of $5.8 million and interest expense of $1.2 million.

7. Changes in Non-Cash Working Capital Balances

	1991	1990	1989
		(in millions)	
Decrease (increase) in current assets			
Accounts receivable	**$ 27.5**	$ 60.4	$ 166.5
Inventories	**120.3**	(27.2)	(35.4)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	**153.0**	(13.0)	(153.0)
Income and other taxes payable	**(46.9)**	44.8	(158.6)
Decrease (increase) in non-cash working capital balances during the year	**253.9**	65.0	(180.5)
Changes in non-cash working capital balances relating to write-down of assets and restructuring costs	**(191.7)**	(22.3)	—
Non-cash working capital balances of businesses disposed	**(62.9)**	(18.3)	(236.9)
Other changes in non-cash working capital balances not relating to continuing operations	**(2.3)**	0.2	115.1
Decrease (increase) in non-cash working capital balances relating to continuing operations	**$ (3.0)**	$ 24.6	$ (302.3)

8. Business Acquisitions and Investments

	1991	1990	1989
		(in millions)	
Expenditures on business acquisitions and investments comprise the following:			
Investment by a subsidiary in subordinated notes of a joint venture	**$ 85.4**	$ 43.1	$ —
Acquisition of:			
Soo Line Corporation	—	108.2	—
Doubletree Hotels Corporation	—	62.6	—
Investment by the Corporation in Laidlaw Inc.	—	—	528.9
Other acquisitions and investments by subsidiaries	**54.5**	70.9	150.7
	$ 139.9	$ 284.8	$ 679.6

On various dates in 1991 and on December 27, 1990, Canadian Pacific Forest Products Limited invested $85.4 million and $43.1 million respectively in interest-bearing subordinated notes of Gold River Newsprint Limited Partnership.

On January 24, 1990, the Corporation increased its ownership interest in its subsidiary, Soo Line Corporation, from 55.8% to 96%. On April 9, 1990, the remaining 4% was acquired. Total cost of the acquisition amounted to $108.2 million. The excess of book value over total cost, which amounts to approximately $16 million, has been allocated to depreciable assets. The results of the Soo Line Corporation are reported with those of CP Rail System.

On December 6, 1990, the Corporation, through its wholly-owned subsidiary, Canadian Pacific Hotels & Resorts Inc., acquired an 80% equity interest in Doubletree Hotels Corporation (Doubletree). The total acquisition cost of $62.6 million was allocated to management contracts – $47.8 million, goodwill – $24.2 million, other – $3.8 million and assumption of long term debt of $13.2 million. The results of Doubletree have been included in the Real Estate and Hotels segment from the date of acquisition, and goodwill is being amortized over forty years.

On March 21, 1989, the Corporation acquired 15,161,034 Class B non-voting shares of Laidlaw Inc. (Laidlaw) for cash consideration of $271.4 million or $17.90 per share. On December 6, 1989, the Corporation acquired an additional 10,000,000 Class B non-voting shares for cash consideration of $257.5 million or $25.75 per share.

These acquisitions have been accounted for by the purchase method and the results of operations from the acquired assets are included in CP Limited's consolidated results from the dates of acquisition.

9. Inventories

	1991	1990
	(in millions)	
Rail materials and supplies	$ 220.1	$ 226.8
Raw materials	247.0	240.8
Work in progress	82.1	138.3
Finished goods	235.8	261.5
Stores and materials	140.9	178.8
	$ 925.9	$ 1,046.2

10. Investments

	1991	1990
	(in millions)	
Accounted for on the equity basis:		
Laidlaw Inc.*	$ 643.4	$ 1,054.3
Gold River Newsprint Limited Partnership**	(13.1)	35.2
Ponderay Newsprint Company**	18.0	18.1
Other	67.2	45.4
Accounted for on the cost basis	208.6	114.0
	$ 924.1	$ 1,267.0

*The Corporation owns 22,500,000 Class A voting shares, which represent 47.2% of Laidlaw's Class A voting shares outstanding, and 25,161,034 Class B non-voting shares (Note 8), which represent 12.2% of Laidlaw's Class B non-voting shares outstanding. The Corporation's ownership interest in Laidlaw, based on the combined number of Class A and Class B shares outstanding, was 18.8% at December 31, 1991, 19.9% at December 31, 1990 and 20.0% at December 31, 1989.

At December 31, 1991, the difference of approximately $300 million between the carrying amount of the Corporation's investment in Laidlaw and its share of the underlying equity in net assets of Laidlaw has been assigned to goodwill and is being written off over forty years.

The quoted market value of the Corporation's investment in Laidlaw as of December 31, 1991, was $485.4 million.

The following is a summary of the reported results and financial position of Laidlaw:

For the Year ended August 31	1991	1990	1989
		(U.S. $ in millions)	
Revenues	$ 1,882.4	$ 1,737.5	$ 1,339.4
Income from operations	246.8	291.2	239.6
Net income	(344.4)	214.5	210.8
Net income applicable to Class A and Class B shares	(348.9)	206.0	202.5

August 31	1991	1990
	(U.S. $ in millions)	
Total assets	$ 3,595.3	$ 3,894.9
Total liabilities	1,913.2	1,841.0
Shareholders' equity	1,682.1	2,053.9

Dividends received by the Corporation from Laidlaw amounted to $13.3 million in 1991, $13.3 million in 1990 and $8.1 million in 1989.

In 1991, the Corporation wrote down the carrying value of its investment in Laidlaw to reflect a decline that management considers to be other than temporary.

**Canadian Pacific Forest Products Limited share of losses from these joint ventures of $53.4 million in 1991 (1990 – $70.9 million; 1989 – $3.1 million) is included in cost of goods sold of the Forest Products segment.

11. Properties and Accumulated Depreciation, Depletion and Amortization

	1991 Cost	1991 Accumulated Depreciation, Depletion and Amortization	1991 Net	1990 Net
		(in millions)		
Transportation				
CP Rail System	$ 7,378.4	$ 2,623.6	**$ 4,754.8**	$ 4,710.9
CP Ships	169.5	106.3	**63.2**	52.4
CP Trucks	222.3	123.1	**99.2**	115.9
	7,770.2	2,853.0	**4,917.2**	4,879.2
Energy				
PanCanadian Petroleum Limited	5,118.3	2,238.8	**2,879.5**	2,859.0
Fording Coal	609.6	253.0	**356.6**	308.2
	5,727.9	2,491.8	**3,236.1**	3,167.2
Forest Products				
Canadian Pacific Forest Products Limited	4,088.4	1,890.8	**2,197.6**	2,562.9
Real Estate and Hotels				
Marathon Realty Holdings Inc.	2,909.6	259.0	**2,650.6**	2,512.7
Canadian Pacific Hotels & Resorts Inc.	990.2	164.7	**825.5**	750.3
	3,899.8	423.7	**3,476.1**	3,263.0
Telecommunications and Manufacturing				
Unitel Communications Holdings Inc.	1,283.0	480.6	**802.4**	739.2
United Dominion Industries Limited	308.7	164.3	**144.4**	171.8
	1,591.7	644.9	**946.8**	911.0
Other	53.0	19.7	**33.3**	30.7
	$ 23,131.0	$ 8,323.9	**$ 14,807.1**	$ 14,814.0

12. Other Assets and Deferred Charges

	1991	1990
	(in millions)	
Goodwill	**$ 122.5**	$ 131.5
Prepaid pension costs	**137.7**	118.5
Unrealized exchange gains	**154.6**	107.8
Long term receivables	**75.3**	68.4
Management contracts	**53.2**	59.5
Net assets to be disposed	**72.5**	53.0
Other	**152.0**	121.9
	$ 767.8	$ 660.6

13. Long Term Debt

	1991	1990
	(in millions)	
Canadian Pacific Limited		
8⅞% – 11¼% Collateral Trust Bonds due 1992-1995	$ 56.8	$ 56.8
8½% – 9.45% Equipment Trust Certificates due 1992-1998	119.6	122.8
7½% – 10½% Debentures due 1994-2021	1,061.2	532.6
Obligations under capital leases due 1992-2001	43.0	45.3
Soo Line Corporation		
7½% – 13⅝% Equipment Trust Certificates due 1992-1996	18.9	25.8
10¾% – 12.95% Notes due 1995-2005	138.2	179.2
Obligations under capital leases due 1992-1999	17.8	22.2
PanCanadian Petroleum Limited		
8⅛% – 10.55% Debentures due 1992-2000	181.4	232.0
Bank loans and promissory notes due after 1992	124.1	25.7
Canadian Pacific Forest Products Limited		
Bank loans due 1992-1998	288.8	10.9
Bank term loan due 1993-1996	57.7	58.0
9.22% – 10⅝% Notes payable due 1996-2011	614.8	338.7
9.71% Syndicated loan due 1999	115.6	116.0
10.85% Debentures due 2014	125.0	125.0
Sundry due 1992-1998	17.4	22.6
Marathon Realty Holdings Inc.		
9% – 14¾% First mortgage bonds due 1992-2007	251.7	259.4
9.85% – 11¼% Secured bonds and debentures due 1992-2006	386.6	389.2
8% – 13⅜% Mortgages due 1992-2018	441.6	508.8
Bank term loans due 1992-1995	511.5	535.4
Canadian Pacific Hotels & Resorts Inc.		
Promissory note due after 1992	11.6	11.6
Unitel Communications Holdings Inc.		
Bank loans due after 1992	423.8	—
Obligations under capital leases due 1992-1994	13.6	8.3
United Dominion Industries Limited		
Notes due 1998	58.0	—
7⅜% Deutsche Mark Bonds due 1992	114.6	116.2
Bank loans due 1994	25.0	100.6
Canadian Pacific Securities Limited		
9.85% – 11.6% Guaranteed debentures due 1994-2026	559.9	150.0
Canadian Pacific Enterprises Limited		
11.78% Notes due 1993	245.1	261.7
Notes due 1996	1,160.0	231.0
Other	32.0	78.6
	7,215.3	4,564.4
Less: Long term debt maturing within one year	405.5	138.4
	$ 6,809.8	$ 4,426.0

13. Long Term Debt (cont'd)

Collateral Trust Bonds are secured by a pledge of the Corporation's Perpetual 4% Consolidated Debenture Stock aggregating in the principal amount of $128.1 million at December 31, 1991.

Equipment Trust Certificates are secured by specific units of railway rolling stock.

The Corporation's debentures are unsecured, but carry a negative pledge pursuant to which the Corporation has covenanted not to issue any further Perpetual 4% Consolidated Debenture Stock.

Marathon Realty Holdings Inc. mortgages, bonds, debentures and bank term loans totalling $1,670.8 million are secured by income properties and income properties under construction.

At December 31, 1991, foreign currency long term debt, denominated principally in United States dollars, amounted to $4,128.0 million (1990 – $2,698.4 million).

Unless otherwise specified, notes payable bear interest at rates which fluctuate with money market rates. Under interest swap agreements, $232 million of notes have been converted from floating rates to fixed rates averaging 8.48%.

Of the aggregate bank loans of $1,443.4 million included above, approximately $1,439.7 million bear interest at rates which fluctuate with bank prime or money market rates. CP Limited has entered into a series of interest rate swaps for periods of one to five years, in order to fix the interest rate, at a weighted average rate of approximately 10%, on $608 million of its bank loans.

Annual maturities and sinking fund requirements for each of the five years following 1991 are: 1992 – $405.5 million; 1993 – $454.7 million; 1994 – $671.3 million; 1995 – $363.2 million; 1996 – $2,341.2 million. United Dominion Industries Limited intends to refinance the Deutsche Mark Bonds due in 1992 and has available capacity under its revolving credit agreement. Accordingly, these bonds are classified as long term obligations at December 31, 1991.

The Corporation and a number of its subsidiaries are parties with major financial institutions to financial instruments with off-balance-sheet risk. These financial instruments include forward exchange contracts and interest rate and currency swap agreements principally associated with certain of CP Limited's long term debt, with a principal amount at December 31, 1991 of approximately $875 million in addition to the interest rate swaps on notes payable and bank loans referred to above. These instruments, which have maturities between 1992 and 1994, involve to varying degrees elements of credit or market risk in excess of the amount recognized in the consolidated balance sheet. CP Limited is exposed to credit loss in the event of nonperformance by the counterparties, however CP Limited does not anticipate such nonperformance.

14. Perpetual 4% Consolidated Debenture Stock

			1991		1990
Currency of Issue	Sterling	United States Dollar	Canadian Dollar	Total	Total
			(in millions)		
Issued	£ 46.8	$ 65.0	$ 128.1	**$ 304.5**	$ 308.2
Less: Pledged as collateral	—	—	128.1	**128.1**	128.1
	£ 46.8	$ 65.0	$ —	**$ 176.4**	$ 180.1

The consolidated debenture stock, created by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Corporation, with certain exceptions.

15. Deferred Income Credits

Deferred Income Credits include $186.3 million (1990 – $192.3 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, $96.3 million (1990 – $97.1 million) from other bodies, mainly for relocation of railway lines, and $74.7 million (1990 – $77.1 million) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include $17.8 million (1990 –$27.7 million) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

16. Minority Shareholders' Interest in Subsidiary Companies

	1991	1990
	(in millions)	
Canada Maritime Limited	$ 10.7	$ 12.0
PanCanadian Petroleum Limited	204.1	207.7
Canadian Pacific Forest Products Limited	226.6	378.6
Marathon Realty Holdings Inc.	—	0.4
Canadian Pacific Hotels & Resorts Inc.	3.5	3.4
Unitel Communications Holdings Inc.	179.0	188.2
United Dominion Industries Limited		
9.5% Cumulative redeemable convertible preferred shares	71.7	95.9
Common share equity	171.4	157.1
	$ 867.0	$ 1,043.3

17. Shareholders' Equity

Preferred Shares: At December 31, 1991, the Corporation was authorized to issue 20,381,788 Cumulative Redeemable Shares without nominal or par value. No shares of this class are outstanding.

Preference Shares: 4% Non-Cumulative
Authorized: an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding.

	1991	1990	1989
		(in millions)	
Issued:			
2,561,769 Sterling Preference Shares	$ 4.2	$ 4.2	$ 4.2
10,696,941 Canadian Dollar Preference Shares	10.7	10.7	10.7
	$ 14.9	$ 14.9	$ 14.9

Every Sterling Preference Share and every Canadian Dollar Preference Share gives the same rights as to voting as is given by an Ordinary Share.

At December 31, 1991, Chemainus Towing Co. Ltd. (an indirect subsidiary of the Corporation) held 33,000 Sterling and 842,250 Canadian Dollar Preference Shares in the Corportion at a total cost of $487,000.

17. Shareholders' Equity (cont'd)

Ordinary Shares: At December 31, 1991, the Corporation was authorized to issue an unlimited number of shares without nominal or par value.

An analysis of Ordinary Share balances is as follows:

	1991		1990		1989	
	Number	Amount	Number	Amount	Number	Amount
			(in millions)			
Balance, January 1	**318.2**	**$ 1,226.0**	318.2	$ 1,214.9	316.9	$ 1,182.3
Issued under dividend reinvestment, share purchase and stock option plans*	**0.5**	**8.9**	0.6	13.3	1.3	32.6
Stock repurchase program**	—	—	(0.6)	(2.2)	—	—
Balance, December 31	**318.7**	**$ 1,234.9**	318.2	$ 1,226.0	318.2	$ 1,214.9

*Effective December 31, 1989, the Corporation amended its Dividend Reinvestment and Share Purchase Plan to eliminate the provisions which permitted participants to acquire new Ordinary Shares of the Corporation by investing optional cash payments. Participants in the plan may continue to acquire Ordinary Shares by reinvesting cash dividends paid on Ordinary Shares held by them.

**In 1990, the Corporation repurchased 567,200 shares under a Normal Course Issuer Bid at a cost of $10.3 million. $2.2 million was allocated to Ordinary Shares and $8.1 million to Premium on Securities.

Foreign Currency Translation Adjustments:
An analysis of the Foreign Currency Translation Adjustments balance is as follows:

	1991	1990	1989
		(in millions)	
Balance, January 1	**$ 79.9**	$ 113.8	$ 124.5
Effect of exchange rate changes	**(7.5)**	(18.0)	(10.8)
Other	**—**	(15.9)	0.1
Balance, December 31	**$ 72.4**	$ 79.9	$ 113.8

18. Stock Options

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase Ordinary Shares of the Corporation at a price not less than 90% of the market value of the share at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Share Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment, either in cash or Ordinary Shares, of an amount equal to the excess of the market value of an Ordinary Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

Under a senior executive long term incentive plan, certain senior executives of the Corporation are entitled, under certain conditions, to purchase Ordinary Shares. During 1991, no Ordinary Shares (1990 – 155,500; 1989 – nil) were purchased under this plan.

The number of Ordinary Shares authorized for issuance under the stock option and senior executive long term incentive plans at December 31, 1991 was 5,000,000 (1990 – 5,000,000), of which 1,655,680 shares (1990 – 2,755,464) were available for the granting of future options and future share purchases under the senior executive long term incentive plan.

At December 31, 1991, options covering 2,493,057 Ordinary Shares (1990 – 1,712,779) were outstanding. These options expire in the years 1996 to 2001 and are exercisable at prices ranging from $16.813 to $27.875 per share.

Options covering 865,817 Ordinary Shares were exercisable at December 31, 1991 as follows: 210,720 shares at $16.813 per share; 215,911 shares at $19.875 per share; 27,316 shares at $20.563 per share; 212,622 shares at $23.188 per share; 152,019 shares at $24.188 per share; 21,568 shares at $27.250 per share; 25,661 shares at $27.875 per share.

A summary of option activity during 1991 is as follows:

	Number of Shares covered by Options
Outstanding at beginning of year	1,712,779
Granted	896,880
Exercised at $16.813 per share	(13,784)
Cancelled	(102,818)
Outstanding at end of year	2,493,057

19. Shareholder Protection Rights Plan

On May 2, 1990, the shareholders of the Corporation approved a Shareholder Protection Rights Plan (the Rights Plan). Under the Rights Plan, one right was issued for each Ordinary Share and holders of Preference Shares received convertible rights which will be automatically converted into ordinary rights based on the value of the Preference Shares relative to the Ordinary Shares.

The rights issued to shareholders under the Rights Plan entitle the holder, upon the occurrence of certain triggering events, to acquire equity interests in the Corporation at a 50% discount to the market. Triggering events include the acquisition of 15% or more of the Ordinary Shares alone, or of the Ordinary and Preference Shares together, in a transaction not approved by the Board of Directors of the Corporation. However, the rights are not triggered by certain permitted bids that are made to all holders of Ordinary Shares and which must be approved by a majority vote of independent shareholders.

Alexander Centre Industries Limited has applied to the Supreme Court of Ontario for certain orders, including an order declaring the Rights Plan to be oppressive and in disregard of the interest of the Preference shareholders, an order restraining the Corporation from taking any action in connection with the Rights Plan and an order amending the Rights Plan so as to treat the Preference shareholders on an equal basis in relation to the Ordinary shareholders.

Notes to Consolidated Financial Statements

20. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense for such defined benefit plans includes the following components:

	1991	1990	1989
		(in millions)	
Service cost-benefits earned during the year	$ 50.8	$ 45.2	$ 47.1
Interest cost on projected benefit obligation	474.8	462.5	375.1
Actual return on pension fund assets	(542.1)	(353.0)	(570.0)
Net amortization and deferrals	86.0	(99.0)	216.7
Net pension expense	$ 69.5	$ 55.7	$ 68.9

The following table sets forth the plans' funded status and the amounts recognized in CP Limited's consolidated balance sheet as at December 31:

	1991		1990	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
		(in millions)		
Actuarial present value of benefit obligation:				
Vested	$ 4,470.6	$ 363.2	$ 4,186.3	$ 309.7
Non-vested	31.3	4.0	32.1	4.2
Accumulated benefit obligation	4,501.9	367.2	4,218.4	313.9
Effect of projected future salary increases	685.2	14.0	659.1	26.4
Projected benefit obligation (based on a weighted average discount rate of approximately 9% and salary increases ranging from 4.5% to 6%)	5,187.1	381.2	4,877.5	340.3
Pension fund assets at market related values	5,177.8	284.8	4,937.2	255.2
Pension fund assets in excess of (less than) projected benefit obligation	(9.3)	(96.4)	59.7	(85.1)
Unamortized portion of net (asset) obligation at January 1, 1987*	125.5	(18.7)	139.2	(21.2)
Unamortized prior service cost*	307.6	22.7	348.2	24.6
Unamortized net (gain) loss*	(286.1)	43.8	(428.6)	29.0
Prepaid (accrued) pension cost in Consolidated Balance Sheet	$ 137.7	$ (48.6)	$ 118.5	$ (52.7)

*Being amortized over expected average remaining service lives of employees, generally 15 years.

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 9%.

CP Limited also has subsidiary-sponsored defined contribution plans. Pension expense for such plans, which generally equals the employer's required contribution, was $7.7 million, $6.1 million and $5.2 million in 1991, 1990 and 1989, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $7 million, $8 million and $8 million in 1991, 1990 and 1989, respectively.

21. Commitments

At December 31, 1991, commitments for capital expenditures amounted to $638.3 million and minimum payments under operating leases were estimated at $647.8 million in the aggregate, with annual payments in each of the five years following 1991 of: 1992 – $134.1 million; 1993 – $104.0 million; 1994 – $75.5 million; 1995 – $59.3 million; 1996 – $49.3 million.

At December 31, 1991, unused commitments for long term financing amounted to $1,296.3 million at interest rates varying with bank prime or money market rates, with commitment fees on $614.1 million ranging from .125% to .25%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $1,140.4 million on which interest rates vary with bank prime or money market rates.

22. Subsequent Events

On February 13, 1992, Canadian Pacific Forest Products Limited (CP Forest) issued 8.5 million Common Shares for net proceeds of $218.1 million. The Corporation, through a wholly-owned subsidiary, Canadian Pacific Enterprises Limited, bought 1.7 million Common Shares, or 20%, at a cost of $45 million, therefore decreasing its ownership in CP Forest to 70.01% from 79.68%.

On February 20, 1992, Laidlaw Inc. issued 22,750,000 Class B Non-Voting Shares for net proceeds of $242.2 million. The Corporation bought 4,550,000 shares, or 20%, at a cost of $50 million, therefore increasing its ownership in Laidlaw Inc. to 18.9% from 18.8%.

23. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1991.

24. Supplementary Data

The discussion of Canadian and United States Accounting Principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between Canadian and U.S. GAAP. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's operating income and net income is summarized, the effect on the statement of changes in consolidated financial position and consolidated balance sheet not being significant, except that dividends are treated as a financing activity in the statement of changes in consolidated financial position under U.S. GAAP.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

For the Real Estate and Hotels business segment, up until 1989 the method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized, which was in accordance with Canadian GAAP, was not an acceptable method under United States GAAP, which requires that income from land sales and gains on sale of income properties be recorded in total in the years that the transactions occurred. In 1990, the method was changed prospectively to fully record income from the sale of properties at the time of sale, provided that estimated future cash flows from the properties are adequate to service any vendor financing. This method is acceptable under both Canadian and United States GAAP. The sinking fund method of providing depreciation followed by this business segment in accordance with Canadian GAAP is not an acceptable method under United States GAAP, which requires that the straight-line method be used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and U.S. GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost component of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under U.S. GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on CP Limited's pension expense is included in the following table. The impact of the difference on the funded status of CP Limited's plans is not material.

Supplementary Data

Canadian and United States Accounting Principles (cont'd)

For the Year ended December 31	1991	1990	1989
	(in millions, except amounts per share)		
Operating income			
Canadian GAAP	$ (505.5)	$ 1,034.9	$ 1,376.9
United States GAAP	(717.2)	984.3	1,371.6
Income from continuing operations			
Canadian GAAP	(913.8)	355.3	664.6
United States GAAP	(1,037.4)	320.3	687.7
Net income			
Canadian GAAP	(913.8)	355.3	745.2
United States GAAP	(1,037.4)	320.3	768.3
Earnings per Ordinary Share			
Income from continuing operations			
Canadian GAAP	(2.87)	1.11	2.09
United States GAAP	(3.26)	1.00	2.17
Net income			
Canadian GAAP	(2.87)	1.11	2.35
United States GAAP	(3.26)	1.00	2.42

The following is a reconciliation of net income under Canadian GAAP to net income under United States GAAP:

	1991	1990	1989
Net income – Canadian GAAP	$ (913.8)	$ 355.3	$ 745.2
Increased or (decreased) by:			
Oil and gas	(63.6)	(2.1)	8.4
Real estate and hotels	(24.6)	(18.3)	(17.9)
Deferred income taxes	3.7	3.7	3.7
Foreign exchange	(10.4)	(11.2)	13.2
Pension costs	(28.6)	(9.9)	14.2
Other	(0.1)	2.8	1.5
Net income – United States GAAP	$ (1,037.4)	$ 320.3	$ 768.3

A new U.S. standard on accounting for income taxes (SFAS 109) was issued February 1992 to become effective for fiscal years beginning after December 15, 1992. CP Limited has not completed its study of the effect that SFAS 109 will have on its financial position as determined following U.S. GAAP.

A U.S. standard on employers' accounting for post retirement benefits other than pensions (SFAS 106) was issued in December 1990 to become effective for fiscal years beginning after December 15, 1992. While CP Limited has not completed its study of the effect that SFAS 106 will have on its financial position as determined following U.S. GAAP, it expects that adoption of the standard will not materially increase deferred liabilities or materially reduce net income in the year of adoption.

Quarterly Financial Information (unaudited)	1991 Canadian GAAP	1991 United States GAAP	1990 Canadian GAAP	1990 United States GAAP
	(in millions)			
Operating income				
First quarter	$ 81.9	$ 60.7	$ 221.8	$ 224.4
Second quarter	165.3	152.3	261.6	257.3
Third quarter	141.8	123.2	229.1	210.1
Fourth quarter	(894.5)	(1,053.4)	322.4	292.5
	$ (505.5)	$ (717.2)	$ 1,034.9	$ 984.3
Net income				
First quarter	$ (5.3)	$ (17.5)	$ 76.2	$ 73.5
Second quarter	30.9	32.9	101.6	89.5
Third quarter	(51.8)	(45.8)	74.3	66.3
Fourth quarter	(887.6)	(1,007.0)	103.2	91.0
	$ (913.8)	$ (1,037.4)	$ 355.3	$ 320.3

Supplementary Data

Quarterly Financial Information (unaudited)

Statement of Consolidated Income

For the three months ended	1991 March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Revenues				
Goods sold	$ 1,239.9	$ 1,259.0	$ 1,194.3	$ 1,208.8
Services	1,214.3	1,330.1	1,298.4	1,325.6
	2,454.2	2,589.1	2,492.7	2,534.4
Costs and Expenses				
Cost of goods sold	896.8	926.7	908.5	1,046.5
Cost of services	869.7	895.5	878.3	954.4
Selling, general and administrative	379.0	371.4	348.6	664.7
Depreciation, depletion and amortization	226.8	230.2	215.5	763.3
	2,372.3	2,423.8	2,350.9	3,428.9
Operating income	81.9	165.3	141.8	(894.5)
Interest expense, net	(129.5)	(132.8)	(133.4)	(144.3)
Other income (expenses)	46.8	2.3	88.5	(14.8)
Income before income taxes, minority interest and equity in income	(0.8)	34.8	96.9	(1,053.6)
Income taxes	(2.5)	16.2	41.5	(318.7)
Minority interest	3.1	(7.5)	2.8	(133.5)
Equity in (income) loss of Laidlaw Inc.	3.9	(4.8)	104.4	(4.6)
Write-down of investment in Laidlaw Inc.	—	—	—	290.8
Net Income	$ (5.3)	$ 30.9	$ (51.8)	$ (887.6)
Earnings per Ordinary Share	$ (0.02)	$ 0.10	$ (0.16)	$ (2.79)

Other income for the three months ended March 31, 1991, includes a gain of $40.5 million on sale of a business by United Dominion Industries Limited.

Other income for the three months ended September 30, 1991, includes a gain of $86.2 million on sale of the tissue business by Canadian Pacific Forest Products Limited.

Operating income for the three months ended December 31, 1991, includes write-downs and restructuring costs described in Note 2.

Supplementary Data

Quarterly Financial Information (unaudited)

Statement of Consolidated Income

For the three months ended	1990 March 31	June 30	September 30	December 31
	(in millions, except amounts per share)			
Revenues				
Goods sold	$ 1,333.5	$ 1,342.2	$ 1,343.3	$ 1,249.3
Services	1,227.7	1,308.4	1,256.0	1,371.9
	2,561.2	2,650.6	2,599.3	2,621.2
Costs and Expenses				
Cost of goods sold	921.2	967.3	944.3	822.8
Cost of services	853.7	854.4	866.5	898.4
Selling, general and administrative	360.3	369.5	358.2	385.6
Depreciation, depletion and amortization	204.2	197.8	201.2	192.0
	2,339.4	2,389.0	2,370.2	2,298.8
Operating income	221.8	261.6	229.1	322.4
Interest expense, net	(120.8)	(121.2)	(121.1)	(124.5)
Other income (expenses)	11.7	18.3	16.1	(28.8)
Income before income taxes, minority interest and equity in income	112.7	158.7	124.1	169.1
Income taxes	37.3	60.1	43.8	79.2
Minority interest	8.0	8.6	5.7	(1.0)
Equity in (income) loss of Laidlaw Inc.	(8.8)	(11.6)	0.3	(12.3)
Net Income	$ 76.2	$ 101.6	$ 74.3	$ 103.2
Earnings per Ordinary Share	$ 0.24	$ 0.32	$ 0.23	$ 0.32

Other expenses for the three months ended December 31, 1990, include a $34.8 million provision for restructuring costs by Unitel Communications Holdings Inc.

Ten-Year Summary

(dollars in millions, except amounts per share)	1991	1990	1989	1988
Revenues				
Continuing operations	$ 10,070.4	$ 10,432.3	$ 10,810.0	$ 10,708.3
Operating income from:				
Transportation	$ (14.8)	$ 294.3	$ 263.4	$ 488.4
Energy	184.5	424.0	297.6	234.4
Forest Products	(845.4)	14.9	377.1	587.4
Real Estate and Hotels	134.4	264.4	354.6	298.5
Telecommunications and Manufacturing	35.8	37.3	84.2	78.8
	$ (505.5)	$ 1,034.9	$ 1,376.9	$ 1,687.5
Net income	$ (913.8)	$ 355.3	$ 745.2	$ 820.1
United States GAAP				
Income from continuing operations	$ (1,037.4)	$ 320.3	$ 687.7	$ 747.1
Net income	$ (1,037.4)	$ 320.3	$ 768.3	$ 887.6
Total assets	$ 20,587.1	$ 20,223.5	$ 19,048.3	$ 17,650.8
Total long term debt	$ 7,215.3	$ 4,564.4	$ 4,256.4	$ 3,836.0
Perpetual 4% Consolidated Debenture Stock	176.4	180.1	162.9	178.1
Minority shareholders' interest in subsidiary companies	867.0	1,043.3	1,238.8	1,073.4
Shareholders' equity	6,713.9	7,827.4	7,796.5	7,303.1
Total capitalization	$ 14,972.6	$ 13,615.2	$ 13,454.6	$ 12,390.6
Per Ordinary Share:				
Income from continuing operations				
Canadian GAAP	$ (2.87)	$ 1.11	$ 2.09	$ 2.21
United States GAAP	$ (3.26)	$ 1.00	$ 2.17	$ 2.42
Net income				
Canadian GAAP	$ (2.87)	$ 1.11	$ 2.35	$ 2.65
United States GAAP	$ (3.26)	$ 1.00	$ 2.42	$ 2.87
Dividends	$ 0.63	$ 0.92	$ 0.84	$ 0.68
Number of Ordinary Shares (in millions)				
Actual	318.7	318.2	318.2	316.9
Average	318.5	318.5	317.3	309.1
Rate of return on average shareholders' equity	(12.6%)	4.5%	9.9%	11.9%
Debt:equity ratio	49:51	35:65	33:67	32:68

1987	1986	1985	1984	1983	1982
$ 10,067.5	$ 10,472.3	$ 10,347.3	$ 9,738.8	$ 8,473.9	$ 8,143.9
$ 602.9	$ 466.4	$ 420.0	$ 469.0	$ 424.0	$ 322.4
323.5	310.1	626.8	586.5	479.1	472.6
476.6	215.6	117.6	149.6	(13.2)	23.1
205.2	199.2	179.9	158.9	140.7	133.9
53.3	70.5	91.2	56.7	(21.3)	130.4
$ 1,661.5	$ 1,261.8	$ 1,435.5	$ 1,420.7	$ 1,009.3	$ 1,082.4
$ 826.3	$ (80.3)	$ 252.7	$ 366.2	$ 129.0	$ 181.6
$ 526.7	$ 244.6	$ 336.0	$ 372.9	$ 204.9	$ 183.0
$ 923.5	$ (5.5)	$ 230.9	$ 340.4	$ 90.3	$ 90.3
$ 18,000.7	$ 17,698.7	$ 21,331.5	$ 18,670.7	$ 17,486.4	$ 17,162.5
$ 4,469.8	$ 5,114.7	$ 6,683.5	$ 5,609.0	$ 5,536.4	$ 5,538.7
197.7	184.6	185.0	157.8	292.5	292.5
1,139.0	1,344.7	2,031.7	2,981.3	2,660.2	2,573.3
6,433.0	5,753.4	6,032.5	4,387.8	3,928.2	3,881.2
$ 12,239.5	$ 12,397.4	$ 14,932.7	$ 13,135.9	$ 12,417.3	$ 12,285.7
$ 1.47	$ 0.62	$ 1.62	$ 1.77	$ 1.12	$ 1.19
$ 1.75	$ 0.82	$ 1.52	$ 1.73	$ 0.95	$ 0.84
$ 2.75	$ (0.27)	$ 1.14	$ 1.70	$ 0.59	$ 0.84
$ 3.07	$ (0.02)	$ 1.04	$ 1.58	$ 0.41	$ 0.41
$ 0.54	$ 0.48	$ 0.48	$ 0.47	$ 0.47	$ 0.55
302.8	299.5	297.7	215.0	215.0	215.0
300.5	298.3	220.8	215.0	215.0	215.0
13.6%	(1.4%)	4.9%	8.8%	3.3%	4.7%
38:62	43:57	46:54	44:56	47:53	47:53

Geographic Distribution of Net Property Investment

At December 31, 1991	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ 224.9	2
Quebec	1,293.2	9
Ontario	3,542.0	24
Manitoba	279.3	2
Saskatchewan	651.0	4
Alberta	3,504.6	24
British Columbia	2,198.8	15
N.W.T., Yukon & Offshore	26.4	—
Transportation Equipment	1,008.5	7
	12,728.7	87
Outside Canada		
United States	1,992.9	13
Other	43.4	—
Ocean Ships	42.1	—
	2,078.4	13
Total	$ 14,807.1	100

Ordinary Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1991		1990		**1991**		1990	
	High	Low	High	Low	High	Low	High	Low
	(Canadian Dollars)				(U.S. Dollars)			
First Quarter	**23¼**	**18⅝**	26⅝	23¾	**20**	**16¼**	22⅞	20⅛
Second Quarter	**21¼**	**18¾**	24⅞	19⅞	**18½**	**16½**	21⅜	17
Third Quarter	**20¼**	**17⅝**	21⅛	17¼	**17½**	**15⅝**	18¼	14⅞
Fourth Quarter	**19¾**	**16⅜**	20⅞	17½	**17⅝**	**14⅜**	17¾	15¼
Year	**23¼**	**16⅜**	26⅝	17¼	**20**	**14⅜**	22⅞	14⅞

Transfer Agents

Montreal Trust Company
1690 Hollis Street
Halifax, N.S. B3J 3J9

53 King Street
Saint John, N.B. E2L 1G5

Place Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9

151 Front Street West
Toronto, Ontario M5J 2N1

221 Portage Avenue
Winnipeg, Manitoba R3B 2A6

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

411-8th Avenue, S.W.
Calgary, Alberta T2P 1E7

510 Burrard Street
Vancouver, B.C. V6C 3B9

Bank of Montreal Trust Company
77 Water Street
New York, N.Y. 10005

Deputy Secretary,
Canadian Pacific Limited
62-65 Trafalgar Square
London, England WC2N 5DY

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Engl. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Engl. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Engl. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Engl. Stock Exchanges

Dividend Reinvestment Plan

Registered holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through the reinvestment of cash dividends, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Trading Symbol

Toronto and New York Stock Exchanges - CP

Duplicate Annual Reports

Some registered holders of shares of Canadian Pacific Limited may receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities of the same class are registered with a slight variation in the name or address, multiple copies will be forwarded. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to the Vice-President and Secretary so that arrangements may be made to avoid duplicate mailings.

Investor Relations

Institutional investors, brokers, security analysts and others desiring financial information about Canadian Pacific should contact:

Ms. S. McIntosh
Director Investor and
Industry Relations
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Shareholder Relations

Shareholders having inquiries or wishing to obtain copies of the Corporation's Form 10-K filed with the United States Securities and Exchange Commission and with the Canadian Securities Commissions as the Corporation's Annual Information Form should write to:

Mr. D.J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Mailing Address

Canadian Pacific Limited
910 Peel Street
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4
(514) 395-5151

Board of Directors

Dr. Lloyd I. Barber, O.C., Ph.D.
President Emeritus
University of Regina, Regina

***Michel F. Bélanger**
Chairman
Canadian Pacific Forest
Products Limited, Montreal
Chairman
United Westburne Inc.
Montreal

Robert W. Campbell
Former Chairman
Canadian Pacific Limited, Calgary

Ms. Dian Cohen
President
Dian Cohen Productions Limited
Montreal

M. James Fielding
Chairman of the Board
Alexander Centre Industries
Limited, Sudbury

†Thomas M. Galt
Director and former Chairman
Sun Life Assurance Company
of Canada, Toronto

***James F. Hankinson**
President and Chief Operating Officer
Canadian Pacific Limited, Toronto

Ardagh S. Kingsmill, Q.C.
Partner, Law Firm of
McCarthy Tétrault, Toronto

The Hon. Peter Lougheed, P.C., C.C., Q.C.
Partner, Law Firm of
Bennett Jones Verchere, Calgary

†Angus A. MacNaughton
President
Genstar Investment
Corporation, San Francisco, Ca.

***Stanley A. Milner**
President and Chief Executive Officer
Chieftain International Inc., Edmonton

William D. Mulholland
Director and Farmer; former Chairman
of the Board and Chief Executive Officer
Bank of Montreal, Toronto

***Paul L. Paré,** O.C.
Director and former Chairman
Imasco Limited, Montreal

James A. Pattison, O.C.
Chairman, President and Chief
Executive Officer
Jim Pattison Group Inc., Vancouver

***†Claude Pratte,** Q.C.
Counsel, Law Firm of Stein,
Monast, Pratte & Marseille, Quebec

***†C. Douglas Reekie**
Vice-Chairman of the Board
CAE Industries Ltd., Toronto

***I. Barry Scott**
Executive Vice-President,
Canadian Pacific Limited and
Chairman and Chief Executive Officer,
CP Rail, Montreal

Ronald D. Southern
Chairman, President and
Chief Executive Officer
ATCO Ltd., Calgary

***William W. Stinson**
Chairman and Chief Executive Officer
Canadian Pacific Limited, Montreal

***Allan R. Taylor**
Chairman and Chief Executive Officer
The Royal Bank of Canada
Toronto, Ont.

The Right Hon. The Viscount Weir
Chairman
The Weir Group, PLC
Glasgow, Scotland

*Member of the Executive Committee
†Member of the Audit Committee

Directorate

Mr. James A. Pattison, O.C., was elected to the Board of Directors at the Annual Meeting of Shareholders held on May 1, 1991.

Officers

W.W. Stinson
Chairman and Chief Executive Officer
Montreal

J.F. Hankinson
President and Chief Operating Officer
Toronto

R.K. Gamey
Executive Vice-President
Toronto

I.B. Scott
Executive Vice-President
Montreal

K.S. Benson
Vice-President Personnel and
Administration
Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

W.R. Fatt
Vice-President Finance and Accounting
and Chief Financial Officer
Toronto

M.J. Patava
Vice-President and Treasurer
Toronto

H.M. Romoff
Vice-President Corporate
Montreal

J. Thomson
Vice-President and Comptroller
Montreal

N.E. Wale
Vice-President Planning & Analysis
Montreal

A copy of the 1991 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown:

PanCanadian Petroleum Limited

PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Canadian Pacific Forest Products Limited

1155 Metcalfe Street
Montreal, Quebec
H3B 2X1

Marathon Realty Holdings Inc.

Suite 1100, Citibank Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Canadian Pacific Hotels & Resorts Inc.

One University Avenue
Suite 1400
Toronto, Ontario
M5J 2P1

United Dominion Industries Limited

2300 – One First Union Centre
301 South College Street
Charlotte, NC 28202-6039

Laidlaw Inc.

3221 North Service Road
P.O. Box 5028
Burlington, Ontario
L7R 3Y8

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec, Canada H3C 3E4

Printed on recyclable paper.
Please recycle.

Canadian
Pacific
Limited

Printed in Canada

Legal deposit,
1st quarter (1992)